

4-

CHAIN STORES

CHAIN STORES

THEIR MANAGEMENT AND OPERATION

BY

WALTER S. HAYWARD

Author of "The Retail Handbook"

AND

PERCIVAL WHITE

Author of "Market Analysis, Its Principles and Methods"

WITH CHAPTERS BY

JOHN S. FLEEK, M. B. A.

THIRD EDITION

McGRAW-HILL BOOK COMPANY, Inc.

NEW YORK: 370 SEVENTH AVENUE

LONDON: 6 & 8 BOUVERIE ST., E. C. 4

1928

COPYRIGHT, 1922, 1925, 1928, BY THE
MCGRAW-HILL BOOK COMPANY, INC.

PRINTED IN THE UNITED STATES OF AMERICA

THE MAPLE PRESS COMPANY, YORK, PA.

PREFACE TO THIRD EDITION

As stated in the preface to the first edition of "Chain Stores" it was the original intention of the authors to keep the book up-to-date, and it is for this reason that the third edition is now offered. The task of keeping the book revised has been greater than was anticipated in 1921 when the book was first prepared. There is perhaps no commercial movement in the country which has had a rise so spectacular and so successful as that of the chain store.

In the years which have elapsed since this volume was first published, the chain store method of operation has made phenomenal increases. Not only has the number of store units greatly increased, but, even more significant, new fields of retailing, formerly regarded as unsuited for chain exploitation, have been successfully entered.

Retail distribution is now undergoing profound changes. It is the opinion of many authorities that mass selling is the remedy for excessive costs of distribution, just as mass production was applied successfully to the reduction of manufacturing costs. The mail-order house, the department store, and the chain store system are the forms of retailing which merchandise on a quantity basis. While the first two methods are showing a steady growth, it is the chain system which is revolutionizing retail distribution.

If the small independent store is to survive, even making allowance for the advantages which it possesses in the personal supervision of store activities and the personal contact with customers, it is widely believed that some method of procuring the benefits of mass selling must be obtained.

The department store has not ordinarily been considered as a competitor of chain systems, but no less an authority than E. A. Filene, president of Wm. Filene's Sons Company, of Boston, Mass., predicts that department stores must adopt chain methods of mass selling if they are to maintain their position of dominance.

The entry of trade publications into the chain store field has of necessity altered, to some extent, the function of a book like "Chain Stores." The book in its present form is now intended as a statement of principles rather than as a manual of present practices, or as a compilation of statistics. In other words, the intention of the authors has been to delineate those aspects of chain store management and operation which change but little over a period of years. Even so, it is expected that revisions will still have to be made from time to time. Any suggestions from the readers will be welcome.

WALTER S. HAYWARD.
PERCIVAL WHITE.

NEW YORK, N. Y.,
October, 1928.

ACKNOWLEDGMENT

To the *Chain Store Age* the authors owe a debt of gratitude, not only for advice and suggestions, but also for actual material. This material has been used freely in the preparation of the third edition of Chain Stores.

In addition to the illustrations which are credited to *Chain Store Age* those appearing on the pages enumerated here should likewise be credited to the same source: 155, 158, 162, 174, 206, 207, 208, 224, 225, 240, 276, 277, 278, 283, 304, 305, 306, 307, 308, 309, 333, 336, 347, 349, 352, 353, 354, 355, 359, 360, 361, 498, 515, 567.

PREFACE TO FIRST EDITION

The purpose of this book is to set forth the principles of chain store operation, organization, management, and control. It is intended not only for the use of the executive at chain store headquarters, but it is also particularly addressed to the branch store manager and his assistants. Furthermore, it is hoped that the book will prove stimulating to independent retailers and to others who are interested in the possibilities offered by the chain store movement.

In the opinion of the authors, this movement is characteristic of all that is best in tendencies towards combination and scientific control. It is thoroughly American. It stands for scientific management as applied to the great function of retail merchandising.

Although this movement is still in its infancy, the chain store is probably the most highly developed exemplar of modern distribution methods.

The first chapter is offered as a brief summary of findings, the intention being to give the reader a perspective of the subject before he comes to the more specific and detailed examination of the various phases of the problem.

As a further means of clarifying the reader's ideas, an outline is placed at the head of each chapter, setting forth its main points in topical form. It is hoped that these outlines will prove valuable for anyone desirous of obtaining in the most direct fashion a comprehensive knowledge of the subject.

Without the assistance of many friends it would have been impossible to complete this work. In addition to those mentioned in the text, grateful acknowledgment is made to the following for their assistance:

Messrs. F. B. Barton, of Akron, Ohio; Robert M. Updegraff, of the Displays Company, New York City; Malcolm P. McNair, instructor in marketing; Prof. Donald K. David, assistant dean and assistant professor of marketing, Graduate School of Business,

Harvard University; Philip Remington; Lyman Armes, of Wood, Putnam & Wood; Allen Wood, of Wood, Putnam & Wood; Alden C. Kenyon, of Wood, Putnam & Wood; Frederick J. Mullen, of the *Boston News Bureau*; Philip Burbank, of the H. B. Humphrey Advertising Agency; Mort Hamburger, of the Federal System of Bakeries; Charles Coolidge Parlin, of the Curtis Publishing Company; H. C. Parson, president of the Woolworth Company; Charles E. Merrill, of Merrill, Lynch & Company; W. T. Grant, president of the W. T. Grant Company Department Stores; Benjamin F. Meyers, editor of the *Haberdasher*; Harold Snyder, of Spear and Company, New York City; S. H. Ditchett, editor of the *Dry Goods Economist*; Alexander New, president of the Mercantile Stores Corporation, Inc.; Alfred H. Beckmann, secretary-treasurer of the National Chain Store Grocers' Association; Paul J. Mandabach, editorial director of the *Drug Store Merchandising and Confectionery Merchandising*; B. B. Wilson, associate editor of the *Music Trade Review*; E. Hubbard, associate editor of the *American Hatter*; Richard D. Wyckoff; J. B. Levey, general sales manager of the United Shirt Shops; William Henry Smith, of the United Shoe Machinery Corporation; H. J. Schuell, general manager of the *Druggists Circular*; H. B. Hanser, assistant general manager of the *Variety Goods Magazine*; Bertrand L. Chapman, manager of Merchandising Department; the *New York World*; Kingman Brewster, attorney; D. Walter Morton, Educational Department, J. C. Penney Company.

Thanks are also due to Mrs. Walter S. Hayward for the preparation of illustrations and for editorial assistance, and to Charles G. Wheeler for his invaluable help in reading the manuscript.

F. J. Arkins of the Alexander Hamilton Institute has been of great assistance not only in supplying bibliographical data but in actual constructive suggestions and reading proof.

As it is the intention of the authors to keep this book up-to-date, they would appreciate suggestions from readers calculated to be of assistance in making revisions.

WALTER S. HAYWARD.

PERCIVAL WHITE.

NEW YORK, N. Y.,
May, 15, 1922.

CONTENTS

	PAGE
PREFACE TO THIRD EDITION	v
PREFACE TO FIRST EDITION	ix
CHAPTER I	
PRINCIPLES OF CHAIN STORE OPERATION.	1
CHAPTER II	
THE CHAIN STORE FIELD	15
CHAPTER III	
THE BASES OF CHAIN STORE COMPETITION.	27
CHAPTER IV	
THE CHAIN STORE AND DISTRIBUTION.	41
CHAPTER V	
THE STORE AND ITS LOCATION	58
CHAPTER VI	
THE STORE ITSELF	80
CHAPTER VII	
PROTECTING THE STORE.	100
CHAPTER VIII	
BUYING	101
CHAPTER IX	
THE CHAIN STORE AND ITS MARKET	124
CHAPTER X	
PRICING AND TURNOVER.	137
CHAPTER XI	
SALES PROMOTION.	152
CHAPTER XII	
SERVICE AND GOODWILL.	169

CHAPTER XIII	
	PAGE
DISPLAY.	179
CHAPTER XIV	
ADVERTISING.	198
CHAPTER XV	
SELECTION OF EMPLOYEES	237
CHAPTER XVI	
TRAINING OF EMPLOYEES	252
CHAPTER XVII	
MAINTAINING MORALE	270
CHAPTER XVIII	
REMUNERATION AND PROMOTION	288
CHAPTER XIX	
THE CHAIN STORE MANAGER	310
CHAPTER XX	
THE CHAIN STORE EXECUTIVE.	321
CHAPTER XXI	
STOCK CONTROL AND MAINTENANCE	334
CHAPTER XXII	
FINANCING THE CHAIN SYSTEM.	363
CHAPTER XXIII	
EXPENSES AND PROFITS	377
CHAPTER XXIV	
AGENCIES AND CONCESSIONS	391
CHAPTER XXV	
INSURANCE.	399
CHAPTER XXVI	
WAREHOUSING AND PURCHASING RECORDS.	410
CHAPTER XXVII	
SUPERVISION OF RETAIL OUTLETS.	428

CHAPTER XXVIII

	PAGE
CENTRALIZING EXECUTIVE CONTROL.	444

CHAPTER XXIX

THE MANUFACTURER'S CHAIN	455
------------------------------------	-----

CHAPTER XXX

FOOD AND GROCERY CHAINS	472
-----------------------------------	-----

CHAPTER XXXI

DRUG CHAINS	505
-----------------------	-----

CHAPTER XXXII

VARIETY AND NOTION CHAINS	519
-------------------------------------	-----

CHAPTER XXXIII

DRY GOODS AND APPAREL CHAINS	533
--	-----

CHAPTER XXXIV

OTHER CHAIN FIELDS.	554
-----------------------------	-----

INDEX.	573
----------------	-----

CHAIN STORES

CHAPTER I

PRINCIPLES OF CHAIN STORE OPERATION

The definition of a chain store, as understood in this volume, is rather a broad one. It may be taken to include any group of retail stores or service units, large or small, dealing in the same line of goods or services, and under the same central management. All other features of operation commonly associated with chain stores differ widely. The degree of authority possessed by the individual store manager, for example, varies from almost complete independence of action to the closest dependence, where the manager is hardly more than a head clerk.

The difference between a branch house and a chain is largely one of the intent of the management. An independent retailer with two, or perhaps three, stores commonly calls them "branches," although they are in reality units in a chain of stores.

An agency is not a chain store, because the element of authority is not present. Except as to certain agreed-on conditions, the agent conducts his affairs as he wishes. In some cases, it is true, the line between an agency and a unit store in the chain is very narrow. The chain unit receives orders from headquarters; the agent, merely suggestions.

The majority of the general principles and practices set forth in the following pages are applicable not only to chain stores but also to all retailers. In the last analysis, a chain is nothing more than a collection of retail stores dealing in the same products, guided by the same policies, profiting by the same economies, and correcting the same mistakes.

This volume has been divided into seven parts. The first discusses the general subject of chain store competition and the

place of the chain store in distribution. The second treats of the member store, and the problems connected with its location, outfitting, and protection. The third takes up the merchandising problems of the chain—buying, selling, advertising, and service. Personnel problems occupy the fourth section; while operating problems, such as stock control, financing, and insurance complete the fifth part. The sixth division is devoted to control. In the last, and seventh, section, the various fields in which chain stores operate are taken up one by one. Something is said of the number and importance of the chains operating in each field, the degree of competition, the principal chains, and the methods found most useful by the leading organizations.

Chain Store Growth.—Chain stores have not yet stopped growing; in fact, the rate at which new stores are being added has been accelerated. A successful chain grows larger, adding new links constantly, and enlarging its territorial distribution. Under normal conditions, a chain expands naturally by utilizing the profits made in old stores to start new ones. The great majority of the leaders in chain store retailing have been financed in this way during the earlier stages of their growth, and it is, without doubt, the soundest method. A chain can grow also by borrowing money from a bank or floating securities to the public, and with this money it may absorb smaller chains and add them to its organization. Finally, two or more chains may decide to unite for purposes of more economic operation and increased profits.

Chains grow, not only as their financial resources expand, but also as the trained personnel increases. New stores are opened for potential store managers as they become trained in the methods and policies of the organization.

Chains are found chiefly in congested centers of population, and they occupy this territory principally because the physical advantages are greater. When urban locations are taken up, chains which can operate unit stores on a small population density expand to the suburbs, and also to smaller towns and rural communities. Natural increase in population is always providing new opportunities for chain growth. Similarly, the increasing tendency to shop in neighborhood districts has provided a field for expansion which chains have taken advantage of to the full.

The Store and Its Location.—The location of the separate stores in the chain is an essential factor in every case. The principles involved are applicable to all chains. In many cases, the factors involved are known or can be determined. George J. Whelan, who first put into operation the practice of locating stores according to traffic density and composition, founded one of the most successful of all chains, the United Cigar Stores Company. Today, all scientifically managed chains realize the importance of correct location as the first factor in success.

If the products to be sold by the chain are mainly convenience goods, that is, goods which are the same wherever purchased, such as cigarettes, groceries, and notions, the store must be located along the traffic streams or in the shopping centers. If, however, the products sold are what is known as "shopping lines," where customers ordinarily examine goods at several stores before purchasing, and where the price is large enough to make the purchase a matter for thought, or if there is something in the article or service to make customers depart from the traffic lanes, then location may be of somewhat less importance. It is rare, under any conditions, to have a chain locate its units far away from the 100 per cent shopping districts, or from the nuclei of population centers. Wherever the best location is not secured, publicity and advertising must be employed more extensively.

The methods to be used in selecting locations are described in Chap. V, such as analysis of the locality and analysis of the traffic. The following chapter brings out the importance of the appearance of the store itself. The store front, for example, should be in harmony with the organization and the localities wherein stores are located. The size of the unit stores should be planned so that they shall be large enough to hold stock and traffic, without having waste room. The stock must be arranged so that it will look its best and at the same time be most conveniently placed for the salespeople.

In planning the store units, advantage is taken, as far as possible, of things as they are and of people as they are. Proper location and layout of store units is largely a study in human nature and its reactions in reference to the products which the chain desires to sell.

A final chapter in this section is devoted to methods of protecting stores from the consequences of carelessness and dishonesty.

Merchandising Problems.—The object of merchandising policies is to increase sales and profits. The merchandising policies of a retail chain are concerned chiefly with obtaining products of the highest quality at the lowest possible price, and selling as large an amount of them as possible at the lowest overhead expense and the largest profit consistent with rapid turnover. Thus, buying and selling are regarded as the two halves—part of a single operation. Chains have obtained a great many of their successes by effecting merchandising economies and passing these on to customers in the form of lower prices. Buying in quantity, for example, has often allowed a considerable price cut to the consumer. Window display, advertising, and sales promotional methods are all employed to increase turnover and sales.

Buying is the first step in merchandising. The chain store, like the department store, has made a specialized activity out of buying. More fortunate than the average department store, it buys only a few instead of a great many lines, and in a large chain the purchases of a single item may take the output of a factory or even several factories. Normally, the chain buys direct, without the interposition of a middleman; and although it must assume the wholesaler's functions of financing and storage, it can do this normally more efficiently and economically than can the wholesaler.

Unlike the independent store, the chain store buyer, because of his greater resources, can go directly to the market and purchase at the source of supply. Ordinarily, buying is done through headquarters, and, by paying cash, substantial discounts are obtained. Careful examination of sales records and stock sheets has enabled many chains to determine their buying needs with great accuracy, so that there is practically no danger of there being any oversupply of stock or, much danger of running short on any item.

But the most important part of buying is to know what to buy, and this can be determined scientifically only by means of a study of the market. The chain store depends partly, it is true, on salesmanship and on advertising, but its main reliance is on

stocking the goods which consumers want to buy. With this idea in mind, chains study carefully the type of product most in demand, the sizes and styles which are favorites, and the quality. Thought must be given also to the subject of sales fluctuations from season to season, and even from week to week or day to day. Sales resistance should be minimized as much as possible by supplying the public with what it wants and not what the store thinks the public ought to want.

Only standard goods are usually sold. Odd sizes, unknown brands, goods with too much style factor do not turn over rapidly, and cut down profits, while increasing expenses.

Pricing and Turnover.—Setting prices at a level which will attract trade while still furnishing profits is an art in itself. The chain system can be given credit for discovering that, the larger the turnover, the less profit it is necessary to make on each sale in order to show satisfactory returns. That is, volume of sales reduces overhead and increases profits. Turnover of merchandise is increased by increasing sales, while the size of stock remains stationary.

Every line of merchandise in stock must be kept turning. The chief merchandising appeal of the average chain has always been price; and it is probable that it will continue to be price, although other supplementary appeals will be added. A low price is secured by efficient buying, low overhead, and large turnover. The first two yield in importance to the last. Also, as chains grow, and as their goodwill increases, a reputation for quality and service may make as strong an appeal as does price.

The price is normally fixed by adding a certain percentage over cost. This mark-up will vary with the nature of the product and with the intensity of competition. Prices are normally set by headquarters, although in certain types of chain the manager is allowed to set prices on goods in his store, the only proviso being that he shows a suitable rate of profit.

“Loss leaders” and cut-price specials are recognized forms of sales promotion in almost all chain stores, so much so that they have become almost a trade custom in the grocery and drug fields.

Sales Promotion.—With the increase in competition, special methods of stimulating sales activity are employed to maintain volume. Sales promotion may take a number of different forms.

One of the simplest and most frequently used methods is to feature some special merchandise or put a special price on some standard product to attract customers to the store. While this undoubtedly increases sales volume at the time, there is an unfortunate tendency for sales to resume their former volume as soon as the special price inducement is removed.

A more satisfactory method, in the opinion of some, is to put pressure on the selling force by means of contests or special rewards. Still another method of increasing sales volume is to add outside items to the regular line.

Those chains which believe in special sales are generally agreed that any bargains offered as such must be genuine bargains, and should not be used entirely to move old stock. A great many chains feature special bargains when opening new stores.

The practice of the United Cigar Stores Company in offering coupons redeemable for premiums of various kinds is not widely followed, but the company has always maintained that this inducement to trade at the company's stores has been one of the principal factors in its success.

One of the best methods of promoting sales is to see that customers are satisfied with the service and products of the chain. In fact, this is the most permanent form of sales promotion possible, because, when carried out well, it results in goodwill and a regular clientele. It destroys the advantage of what has always been regarded as one of the independent store's greatest assets, namely, the personal supervision of the customer's needs.

Advertising and Display.—Other fundamental parts of the merchandising program have to do with advertising and display. Every retailer must let the public know where he is located and what merchandise he has to offer. This can be done in either of two ways: The first is to establish the business in the traffic lane, and to display the merchandise plainly in the windows with prices attached so that all who pass may read; the second is to give the people the same information through the medium of magazines, newspapers, and broadsides. All chains use the first method to a greater or less extent. Few chains in the past used the second method, but in late years the use of regular advertising has increased many fold.

The advertising policy of any chain will depend on the size of the chain, the type of product or products sold, and the location of the stores. A large metropolitan chain, for example, can advertise in the daily papers with the same success as any department store. Obviously, a small chain would not derive so much benefit from newspaper advertising. When a chain has a number of units widely scattered in different cities, the problem becomes more difficult. Whether the chains of the future will advertise in magazines with nation-wide circulation is not yet decided. It is not, however, beyond the realms of possibility, or even probability.

Ordinarily, advertising is prepared at headquarters, although special conditions may make it necessary to allow local managers considerable leeway in advertising. In the larger chains, allowance must be made for local, sectional, and climatic differences.

The advantage of the window display over other types of advertising is that there is no appreciable lapse of time between the mental sale to the customer made by the sight of the product, and the actual sales transaction in the store. In the case of the advertisement, many sales may be made mentally which are never carried out, because between seeing the advertisement and going to the store to buy it something has come up which prevents the actual sale. Chain stores have been paying more and more attention to the actual sales value of the display window, and the time is not far distant when every chain will have to figure carefully the value of each of its windows as a sales medium.

Display, like advertising, is usually planned at headquarters. Sometimes special crews are employed to install windows, and in such cases very satisfactory results are obtained. Displays are carefully planned to suit the type of passer-by, and it often happens that a store in a high-class residence district will use a different display from the store in a poorer section.

The Personnel.—Whether men or methods are more important in chain store operation has always been a moot question, and is one that can never be decided in favor of one or the other. The methods are essential, but the men to carry them out are equally important. No matter how well standardized the procedure and the policy of a chain may be, it will not operate profitably

unless there is a coordinating influence binding the organization together, and making it work in harmony.

Like the great railway magnates of the past century, who virtually created opportunity out of what they saw, the pioneer chain executives have built up vast retailing enterprises which seem proof against the strongest competition. They built the machine, but, as with the railways, they had to have men to run the engines. The chain store manager is comparable to the engineer in the locomotive. From the local store there is a direct line to the district office, or perhaps to the central office, which must be kept clear. Merchandise must go forward, daily reports must come back. The district manager sits at his desk like a train despatcher signaling a clear road for the trains in his district.

The function of each man in a chain organization should be clearly defined, from that of the chief executive down to the humblest clerk. And each member of the organization must feel an interest in his work and in the welfare of the company.

Selection and Training.—The chain must begin its personnel organization with the careful selection of those employees who are to be the future executives, for the majority of chains believe in the policy of promoting from the ranks. The employment department or store manager in charge of employment must pick and choose carefully only those men and women who are considered to possess the requisite characteristics. It is now known that only a small percentage of those actually applying have in them the ability to make good store managers, much less district managers and other executives.

Previous experience in retailing is regarded rather as a hindrance than anything else; the chain prefers to train the new employee in its own policies without having the employee unlearn what he has learned already. The younger man is almost universally favored. Requirements as to education differ. The chief argument against the college-trained man is his alleged unwillingness to start in at the bottom and work up gradually. Generally, the value of a certain amount of education is recognized.

Most chains give new employees some training before actually putting them behind the counter. They are taught the stand-

ardized sales policies and methods of the chain, the nature of the products sold by the chain, the arrangement of stock in the store, and the necessity of courtesy to customers under all conditions. This preliminary training has been found to result in more sales volume for the company and larger earnings for the sales force.

A large labor turnover in any chain is a danger signal. If men are anxious to leave the employ of a chain, there must be something wrong. A concern that makes adequate allowance for the store cat but starves the store manager will find, in the long run, that its economy has been ill directed.

Morale.—The chain organization is held together by a form of morale—a combination of hope of reward and fear of discipline. A proper system of morale makes every individual in the organization morally and financially responsible for the duties of his position.

The higher the degree of morale that exists in the organization, the less necessity there is for policing. While chains should keep careful watch on all activities of the personnel, the best safeguard lies in the morale of the organization itself, which creates teamwork and the spirit of cooperation. It makes it easier to coordinate the various functions of the business; it fuses together the separate units; and it creates goodwill towards the management among the employees.

Morale must always be inspirational and instructive, without cheapening the effect by the use of so-called "pep" literature so frequently encountered in sales bulletins. The idea is to give encouragement, without pointing a moral too closely. The various parts of the organization must be familiar with each other's activities. It is not a fundamental principle that a chain should publish a house organ, but there should be some established method by which the central office can let the unit stores know what is going on both at headquarters and among the stores. The larger organizations frequently publish house organs as the easiest way of solving this difficulty. Smaller concerns send out sales bulletins and letters. In local chains, the owner can pay a daily visit, or keep in touch by telephone.

Remuneration and Promotion.—The corner stone of all personnel work lies in the method of remuneration employed. There is the widest variety of methods in use, but the common feature

of all of them lies in the recognition that some incentive beyond a straight wage must be offered. Many fields have developed methods particularly suited to their own problems. Grocery chains, for example, commonly pay a straight wage, with a percentage on gross sales in addition. Other chains use commissions, profit-sharing schemes, or bonuses for keeping down expenses or keeping up profits. Many chains permit employees to subscribe to stock in the corporation at special rates, believing that this method of profit sharing will be an inducement to added loyalty and endeavor.

Promotion policies differ, but, in general, the path from the bottom to the top is open, and, in fact, this is often the greatest inducement in securing a type of employee above the average in intelligence and ability. In the rapidly expanding chains, the rungs in the ladder of promotion are ascended more rapidly, because of the great need for store managers to take charge of newly opened stores. Store managers must frequently be recruited from the outside until the chain has had time to train a corps of employees of its own fitted to carry on the program of expansion. In the older-established chains, promotion is more slow and the sifting out process more closely supervised. Many managers, particularly in small towns, are perfectly contented to keep their present positions, and do not, in fact, care for further responsibilities. The younger managers are often extremely ambitious, and, when properly trained, make excellent district managers and superintendents.

Generally speaking, the rewards, both in money and promotion, are particularly good in the chain store field.

The Store Manager.—The chain must exercise the greatest care in selecting and training its store managers, because on them depends in great measure the offensive power of the organization. Thus the chain must see that they take an interest in the work to a degree which makes them oblivious of the long hours which are sometimes inevitable; that they are courteous to customers; that their honesty is unimpeachable; and that they know how to get along with employees under their control. Mere sales ability is not sufficient without these added qualities.

Much of the store manager's efficiency will come from the method of training which he has received, and the supervision

exercised over him by superiors. Since standardization is the goal of every chain, he must be prepared for his part in obtaining the desired degree of standardization. He must know how to make his daily reports, how to order stock at the right time, in the right way, and in the right quantities. He must also be trained in methods of taking care of his store, seeing that stock is arranged correctly, and that money is disposed of properly.

The store managers of any chain should form a reservoir of ability from which buyers, district managers, and other specialists showing talent could be chosen for promotion.

Stock Control and Maintenance.—In an effort to simplify distribution, the majority of chain stores have taken upon themselves the warehousing function. That is, they store all goods purchased and delivered until they are requisitioned by the member stores. This reduces freight charges, and gives assurance that goods will be available when needed.

The warehouse must be located with respect, first, to the routes by which articles are received; and, second, to the position of the member stores. If the jobber's profit is to be saved, this is exceedingly important.

The main principles of warehouse management are three:

1. Maintain an adequate and fresh supply of stock. On this point depends the efficiency of distribution to member stores. Articles listed as being in stock must actually be in stock. Of course, there will be unavoidable cases where goods will get out of stock, but these must be kept at a minimum.

2. Fill orders from member stores with speed and accuracy. If there is any lapse in the rapidity of distribution, lost sales will result.

3. Keep down expenses. The expense of warehousing is taken care of in the central organization, and it forms a part of the general overhead expenditures. That is, each store must bear a certain percentage of this cost of storing and distributing goods.

All stock in warehouses should be arranged logically with consideration to the frequency with which it must be moved and the actual labor of moving. Heavy goods, for example, should be nearest the loading point. A regular position for each article of merchandise helps in speed of handling, and eliminates

mistakes. By placing old goods in front, the stock can constantly be kept fresh. In the warehouse, as in the store, the layout may advantageously be standardized.

Financing.—With the growth of chain store systems, the problem of financing has become steadily more important. Each year the list of chain security offerings grows larger, and the chain issues listed on stock exchanges keep pace. Some of these security issues are fairly small, some mount high in the millions, as the \$20,000,000 preferred stock issue of the United Cigar Stores Company of America, in 1927, or the \$19,250,000 of common stock of the Kroger Grocery & Baking Company. Furthermore, the banking houses which formerly treated chain enterprises coldly as too speculative for underwriting now vie with each other for the privilege.

It still holds true, however, that chains finance their early expansion mainly out of profits from existing units. But the outstanding success of the earlier chain enterprises has made it much easier for smaller chains to obtain financial backing.

Expenses and Profits.—Each store in a chain will show approximately the same percentage for expenses as its independent competitor, less the economies effected by increased turnover and the elimination of credit accounts and deliveries. When sales are large, the overhead goes down, because the turnover has increased. By increasing the average sale, profits are increased also, by reason of decreased selling expenses.

Profits come with standardization of method. Generally, overhead is larger in small chains and smaller in large chains because of this very factor of standardization. Chain standards and practices are evolved slowly by experience. A new chain cannot hope to accomplish in a few months what normally takes many years.

Generally speaking, chain stores find it the best policy to do business for cash. This eliminates bad debts and simplifies accounting practice. In almost every case where credit has been eliminated, the result has been increased net profits for the organization.

The question of deliveries is harder to settle. Some chains deliver on payment of a certain amount extra, sufficient to cover delivery charges.

Every store should earn a profit, unless there is some strong reason, such as competition, which makes it impossible. A new store will take a certain length of time to become established. If an old store shows consistent losses, and no other reason can be found except lack of adequate volume of sales, this store should be closed and a new one started in some better-favored location. Mistakes are made in spite of the highest degree of standardization, but these mistakes should occur as seldom as possible.

Control.—The manifold activities of the chain can be controlled by means of records. Records are a necessity in every chain. By them the purchasing agent buys goods to sell through retail stores and estimates the quantities necessary to have on hand in the warehouse. By records, the sales manager keeps track of the sales in various stores and can tell at a glance which stores are doing well and which are falling behind. By records, the auditor tells whether overhead expenses are too high. Lastly, by records the executive control is exercised.

The average small retail store keeps few accounts, because the facts are supposedly contained in the owner's head. But all the necessary information in the chain is tabulated. It undergoes a regular digestive process until it is finally served up to the chief executive in the form of percentages and profits.

The records of the chain are among its most valuable possessions. Extending back over a series of years, they contain in essence the results of past experience. By looking back, the chain can tell approximately what to expect in every line and phase of its activity. Should it plan to start another store, the records should tell what a store in such a location should earn. When sales are reported each month, the sales manager can see whether the amount is less than it was a year ago at the same time, or more.

All chain stores should keep a continual, automatic inventory of stock on hand in warehouses, and in some cases in each store. Adequate turnover of all lines can be controlled in no other way.

Records fall into three main divisions:

1. Warehousing and purchasing records.
2. Accounting records, overhead, salaries, etc.
3. Records of individual retail stores.

Taken collectively, they form the basis of the chain's operation, and the person in authority knows daily exactly where his company stands in every detail. Thus, the principle follows that the chain should have records so complete in every detail as to allow the executive at any time to ascertain the exact status of any store in the chain, any warehouse, any manager's records, and all overhead expenses.

CHAPTER II

THE CHAIN STORE FIELD

The chain store movement has not yet reached the full extent of its development. The rapidity of its growth, the changes which it has brought about in distribution, and its brilliant future make impossible any rigidly definitive treatment of the subject. To what extent the independent retailer will be eliminated by the chain cannot be foretold. Yet it is apparent that the greatest opportunities in retailing now rest with the chains.

The economic tendency of this age is definitely directed towards more direct distribution from producer to consumer. It is to the overwhelming advantage of the chain that it works with and not against this tendency. The character of chain store growth is evidence of the economic soundness of its methods and policies. Starting in staple quick-turning lines, such as groceries, tobacco and notions, it has gradually spread to other lines of merchandise which not long ago were thought safe from chain attack. There are now hardly any fields of retailing which do not lend themselves to chain development. Starting also, for the most part, in large centers of population, the chains have now spread to outlying suburban districts and village communities. While certain independent retailers still declaim vainly against the chain, others are accepting it as an accomplished fact, and are making it their aim to imitate, as far as possible, the methods used by the chains in obtaining success, even to the extent of starting chains themselves.

The field of retailing has been immeasurably broadened. It now offers opportunity to men of ambition and vision. The founders of the great chains of today built slowly and soundly. Capital was slow in realizing that a new and great opportunity for investment and profit was being offered. Capital had been too much occupied with the profits of production and had paid little attention to those of selling. The nineteenth century

was the great age of productive effort in the world. The twentieth century has turned its attention to the development of scientific merchandising. In this development the chain store organizations have progressed farthest and most successfully.

The Inception of the Movement.—The credit for founding the first large chain of stores belongs to George H. Hartford, the originator and, until his death, the president of the Great Atlantic & Pacific Tea Company. In 1857 he was in the hide and leather business in New York, and in 1859 he added tea as a side line. This venture was so successful that in 1864 he organized the Great American Tea Company. Then it occurred to him that it would be possible to have a chain of retail stores throughout New York and Brooklyn, and in a few years he had a chain of 25 stores, which he called the Great Atlantic & Pacific Tea Company.

The dates of founding some of the more important chains are as follows:

Great Atlantic & Pacific Tea Company.....	1859
Jones Tea Company.....	1872
F. W. Woolworth Company.....	1879
James Butler.....	1882
Hanan Shoe Company.....	1885
Acme Tea Company (now part of American Stores Corporation).....	1887
S. S. Kresge Company.....	1897
United Cigar Stores Company.....	1900
J. C. Penney Company.....	1902

The greater part of the development of all these chains has taken place within the last 20 years, but it is interesting to note that all the earlier chains have attained considerable size and prominence. The Great Atlantic & Pacific Tea Company is still far ahead of all others in the number of stores operated. The date of the Hanan Shoe Company's starting its chain of retail stores shows that the idea of a manufacturer's chain was conceived comparatively early in chain store development, although the far greater expansion of the purely retail chains makes it seem that these chains will be the ultimate type.

Types of Chain Stores.—Chains may be classified in several ways, each one of which offers valuable points for analysis.

They are:

1. *Geographical Extent*.—Under this heading chains may be divided into

a. National.

b. Sectional.

c. Local.

2. *Policy*.—Under this heading come those particular sales and merchandising principles according to which the chain is operated:

a. Cash-and-carry.

b. Self-service.

c. Service.

3. *Organization*.—Chains have shown considerable variation on this point, due to difficulty in standardizing both men and methods.

a. Closely centralized type.

b. Loosely connected.

c. "Penney" type.

d. Combination of types.

4. *The Product Sold*.—This question of the product was at first comparatively limited, but in recent years it has been extended to such intangible products as places of amusement, barber shops, hotels, and other institutions offering service rather than a tangible product.

Chains Considered Geographically.—There are few national chains, if by national is meant operating stores in every or nearly every state in the union. Among the large chains, the Great Atlantic & Pacific Tea Company, the F. W. Woolworth Company, and the United Cigar Stores Company are the outstanding examples. Each of these chains has followed a policy of locating in the larger centers of population first.

The F. W. Woolworth Company claims to have a store in every town containing 8,000 inhabitants or over. Figure 1 shows how their stores are distributed. The great majority are located in New England and the Middle Western states, with New York and Pennsylvania in the lead. The growth of this chain will obviously follow the lines of population, and when in the future

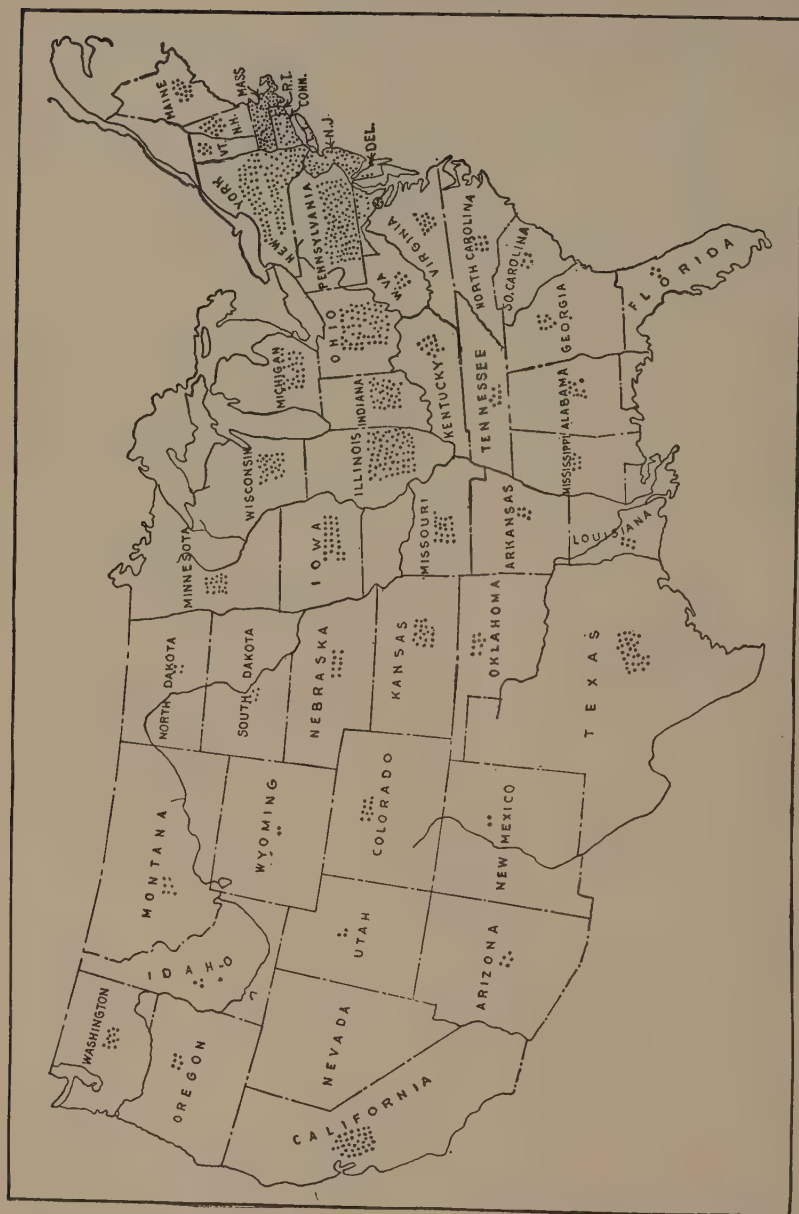


Fig. 1.—Distribution of Woolworth stores.

the inhabitants of the South or the West gather more in cities and towns, the Woolworth stores will follow them.

A great many chains are sectional, that is, they have outgrown their purely local character and have extended into the neighborhood. Some of these sectional chains, such as the Louis K. Liggett Company, show signs already of becoming national. The Liggett Company has already extended its operations as far south as Georgia and Florida and as far west as Oklahoma and Minnesota. Many grocery chains are sectional, such as the Kroger Grocery and Baking Company in the Middle West and the First National Stores in New England.

Last of all come the local chains, with units in close proximity to one another, as yet in a limited field but potentially able to expand beyond the local limits. There are many drug chains of a local nature, as well as grocery chains.

With the new development of chains in fields which cover a considerable market area with one store, such as radio, for example, stores may be located in widely separated territories.

Few chains were originally started with the definite idea of making them national or even sectional. The growth has usually been gradual and the steps in development perfectly logical. The local chain as it grows becomes sectional. The sectional chain keeps on expanding until it becomes too large to be called sectional, and becomes national. Chains which have been launched on a quantity basis without this careful seasoning period have usually been unsuccessful.

Chains Considered according to Operating Policy.—The chain store's great and fundamental appeal to the public has been saving in price. To attain this end in the pioneer days of the chain, managements were constantly planning how to sell goods at a great saving. It was not until 1912, however, that the Great Atlantic & Pacific Tea Company did away with its telephones, deliveries, and credits, but it claimed that as a result a 65 per cent increase in business came about. This policy of reducing costs met with instant approval from that section of the purchasing public which was willing to do without the extra services if it could secure the resultant saving in price. The Great Atlantic & Pacific Tea Company's policy was generally

followed by chain store organizations, until the term "chain store" became virtually synonymous with "cash-and-carry."

It was after the World War that the thrift movement attained maximum headway. The evolution of a service chain into a cash-and-carry chain is well illustrated by the experience of Charles M. Decker and Brothers, of Orange, N. J., as told by Richard M. Decker, Treasurer:

The company of Charles M. Decker and Brothers has operated so-called service grocery stores since 1871. However, due to changing conditions, the demand for this class of store was decreasing, rather than increasing, in this territory. Therefore, in the early part of 1918 we decided to enter the chain store business for ourselves. Since that time, we have closed all but three of our service stores, and have opened, either ourselves or through the purchase of another company, approximately one hundred and sixty-odd thrift stores.

In 1920 we organized a new company to take over the operating thrift stores of Charles M. Decker and Brothers and to open additional ones as times and conditions should warrant. Two companies are now being operated, but with one centralized purchasing and administrative organization. We have different schedules of prices in the two chains of stores; and it is needless to say that there is a difference in our accounting systems.

At present we consider the thrift stores the most satisfactory, but we also feel that there is enough demand in certain localities for a service grocery store; and whether the service grocery store should be continued depends, of course, upon whether there is sufficient demand. We would also add that in our service stores we carry a much greater assortment of merchandise than in our thrift stores.

One further development has taken place in cutting expenses. The self-service store, of which the chief exponent is the Piggly Wiggly system, has found a niche in many communities. There is saving in clerk hire as well as the customary savings in delivery and credits. The plan is simple. There are turnstile gates through which the customer enters. Goods are placed on open shelves with prices plainly marked. The customer even opens the refrigerator and takes out whatever he or she wishes. It is impossible to leave the store without passing through all the aisles. When the customer reaches the out-turning wicket a clerk records the amount of the purchase and the customer pays this to the cashier.

An idea of Piggly Wiggly profits and economies may be gained from the following account:¹

The first Piggly Wiggly store in Memphis, Tenn., was opened in a building formerly occupied by one of a chain of 20 stores. For the six months immediately preceding the taking over of the building by the Piggly Wiggly concern, the sales of the former chain store had approximated \$34,000, with an approximate expense of \$5,200. The Piggly Wiggly organization retained the clerks formerly used in the other store and had the same management, but put into effect its self-service system and its own equipment. In the first six months of the Piggly Wiggly occupancy, \$114,000 business was done at an expense of \$3,400. The self-service system cut \$300 per month from expenses, and showed a gain of \$80,000 in sales. Under the old system the overhead had been 15 per cent; the Piggly Wiggly overhead was 3 per cent. For two months, June and July, 1920, this store did an average of \$6,000 per week, while it carries \$8,000 worth of merchandise at all times, giving it a 39-time turnover yearly.

The above account is obviously written from the Piggly Wiggly angle. A chain store which tried out the self-service method says:

We tried out the Piggly Wiggly idea of a self-service store, and it worked. In fact, it is one of our best stores. However, we find this is true: there is no tremendous saving in the payroll, as might be expected. We like this one store in its location, down town, and feel that it takes care of the afternoon rush more efficiently than the old style of store ever could. But for a residence neighborhood, we feel the self-service store would never work. Women like to have things explained to them. The personal factor is too valuable to warrant having a lot of mechanical stores without real human beings behind the counter.

That there is a large and profitable opportunity awaiting the service chain is just beginning to be realized. In many respects the portion of the market which is able and willing to pay for service will repay cultivation. The policy of practically all chains up to this time has been, very wisely, to cater to the largest market. They have either ignored or regarded as unimportant the portion of the market which still furnishes the backbone of support to independent stores. The Kresge Company has observed that it is possible to cater to two markets; hence its Red Front and Green Front stores. Equally significant

¹ *Dry Goods Economist*.

is the experience of the Economical Drug Company of Detroit, Mich., which in addition to 18 cut-rate drug stores, operates 8 quality stores under another name, reaching an entirely different market. The appearances of the two chains are quite different, the one conveying an idea of economy; the other of luxury. In one chain the windows are crowded with price bargains; in the other there is ample space and the price feature is subordinated. Requirements for personnel are much more rigid in the quality chain. Nevertheless, the management has found that it can employ one purchasing department, one accounting department, one delivery service, one sign-writing and display-card shop, and one central personnel office.¹ While the difficulties in operating a chain designed to meet the demands of the upper section are greater, nevertheless the chain store has developed to such a point that these should be readily overcome.

Type of Chain Organization.—In the beginning, there was no standard type of chain organization. It varied, and still does vary, from the most centralized form of management, with all authority emanating from headquarters, to the chain where the store manager is virtually dependent upon his own judgment. The grocery chains, drug chains, and other chains dealing in staple commodities such as tobacco, are ordinarily subjected to some closely knit form of organization. In the variety chains the store manager is a more important factor, although even here the control of headquarters is closely exercised. In the hotel chain, the manager may be virtually independent, the control being largely financial.

A different type of organization is ordinarily required for chains which have several stores in each community, from that suitable for a chain with widely scattered links. The store manager in the former case is likely to have less authority, and supervision can be carried on personally or by a delegated inspector. A paper system of control is required where store units are geographically separated.

The Penney partnership system, which played such a large part in the development of that chain, is now merely of historical interest, having been abandoned in favor of a more conventional form of organization. The manufacturers' chain brings in so

¹ See *Chain Store Age*, December, 1927.

many new problems not existing in the average retailers' chain that the subject has been treated in a separate chapter. The growth of agencies has also seemed to warrant the inclusion of a separate chapter on that subject.

The Type of Product.—The greatest point of differentiation between chains is in the type of product sold. It is only recently that chain operators in these various fields have come to realize that there is a community of interest between them based on their operating methods. Each year sees extensions of chain practices into new fields. The following comprise the principal lines of retailing in which chains are now operating successfully:

Bakeries	Hosiery
Barbers	Hotels
Beauty parlors	Jewelry
Books	Loan offices
Butchers	Men's clothing
Candy and confectionery	Meat
Cloaks and suits	Millinery
Clothes	Optical goods
Dairy products	Pianos
Drugs	Radio
Dry goods	Restaurants
Dyers and cleaners	Shirts
Five-and-ten-cent stores	Shoes
Florists	Stationery
Fruit	Tailors
Garages	Theaters
Groceries	Tobacco
Haberdashery	Typewriters
Hardware	Waists
Hats	

The operating policies of the individual chain are largely determined by the nature of the product or service to be marketed. Not only the location, appearance, and character of personnel will be affected, but also the method of accounting and the degree of supervision. A possible new development is that of the departmentized chain system wherein each department will be a unit in a subordinate chain. Thus, if there were ten stores in the chain, located in different cities, the millinery department in each of these stores would belong under the control of a millinery expert who would be responsible for the

success of the millinery department in each store, and would have to see that it made profits. This idea can be seen in the present buying associations formed by groups of department stores.

Chain Store Trends.—A few of the more outstanding developments in the chain store field are worthy of mention. In the first place there is the question of growth. Chain stores have grown in a number of ways:

1. *In Number of Chains.*—Each succeeding year has shown a larger number of chain organizations.

2. *In Size of Individual Chains.*—The leading chains have shown an uninterrupted growth almost from their beginnings, which has not yet stopped.

3. *In Financial Strength.*—The larger chains have arrived at a position of great importance in the business world. The gross sales of the Great Atlantic & Pacific Tea Company are over \$700,000,000.

4. *In Extension to New Markets and to New Fields.*—This has already been discussed in this chapter.

Developments to be watched with interest are the establishment of chains of retail stores by the leading mail-order houses, and the increase in "independent chains," especially as fostered by wholesale houses. The tendency of the grocery chain to turn into a food market is also worthy of attention. The Great Atlantic & Pacific Tea Company has already installed meat departments in many of its stores. The Safeway Stores, Inc., located on the Pacific Coast, has taken over the operation of its fruit and vegetable departments.

The abandonment of the Penney partnership plan removed from chain store retailing one of its outstanding features. The decision of the Piggly Wiggly Company to dispose of the stores directly operated by it, and to concentrate its attention on the development of its agencies is an interesting one.

The effect of the chain store movement on distribution has become increasingly marked. Manufacturers, who had originally built up their business through jobbers and independent outlets, have had to alter their policies, often against their wills, to conform to the new situation confronting them. Especially in the grocery field it has become evident that the chain outlet is becoming more important than any other.

Combination.—Every student of business has noted that at a certain stage of development in an industry mergers take place between competing firms. This tendency is apparent in the chain store field. In 1912, the F. W. Woolworth Company was formed to take over and operate six five-and-ten-cent store chains, *viz.*:

	STORES
F. W. Woolworth Company.....	318
S. H. Knox & Company.....	112
F. M. Kirby & Company.....	96
E. P. Charlton & Company.....	53
C. S. Woolworth.....	15
W. H. Moore.....	2
Total.....	596

At one stroke the F. W. Woolworth Company became a national chain, for the various components had each developed a separate section of the country. The motives for the merger were plain. It gave at once a stronger financial organization, much greater buying power, and a consequent wider range of articles which could be sold at 5 and 10 cents, and, lastly, it increased operating efficiency.

The second great merger was in the grocery field in Philadelphia, when the following five chains combined, in 1917, to form the American Stores Company:

	FOUNDED	STORES
The Acme Tea Company.....	1887	433
Robinson-Crawford.....	1891	186
The Bell Company.....	1890	214
Childs.....	1883	268
Dunlap & Company.....	1888	122
Total.....		1,223

This total of 1,223 stores made the American Stores Company, one of the largest grocery chains in the country, and the only chain operating more than 1,000 stores which was not national or sectional in scope. The results are substantially the same as in the Woolworth combination.

The mergers of small chains, which take place constantly, are rarely discussed. They are not large enough to cause much stir in the commercial world. But this process, which goes on

unceasingly, and has been more rapid of late years, has enormously increased the number of chain stores. No sooner do two or more chains combine than a new chain arises to compete with them. No chain has yet succeeded in having a monopoly, because the fields in which it operates are open to its competitors.

Of late years, the process of combination has been accelerated. In 1927, for example, the National Tea Company increased its system 50 per cent, from 800 to 1,200 stores, mainly by incorporation of smaller chains. In the drug field, to cite another instance, the Walgreen Company, of Chicago, starting the year with 106 stores, ended it with nearly 200, most of which came from the absorption of other chains. In the candy field, the Happiness Candy Stores took over the Mirror chain. The combination of the Schulte and the United Cigar Stores interests was only the culmination of an event which had long been forecast.

Conclusions.—Although differentiation is still pronounced in the chain store field, the tendency is constantly towards greater standardization. Better methods are being put into practice and being generally adopted. The limits to chain store development, as outlined a few years ago on the basis of then existing conditions, no longer applies. Irving S. Paull, a well-known authority on distribution, expressed the opinion of 1920 in the following conclusions:

1. The chain store enters a community after it has been demonstrated that there is a sufficient volume of business to be obtained to warrant locating in any selected community.

2. The chain systems do not find it profitable to carry wide assortments for the occasional convenience of customers or fluctuating demand.

3. The chain store does not furnish certain services, conveniences, and accommodations which are demanded by the majority of consumers. These demands add materially to the risks and costs of operating a merchandise institution.

There is already evidence that the third point is being modified and that chains are prepared to give the added service which will open a new section of the market for their exploitation.

CHAPTER III

THE BASES OF CHAIN STORE COMPETITION

For many years it was believed (and still is believed in some quarters) that the secret of chain store success was to be found in the application of certain principles and practices beyond the reach of the ordinary retailer. It is now recognized that the success of the chain store is founded on the observation of certain rules of procedure, which are no other than the sound principles of retailing. The advantage of the chain over the independent retailer is that of any large-scale operator over a smaller one. Theoretically, it is possible for the independent retailer to compete with the chain, and that he often cannot do so profitably is due as much to his own lack of knowledge of retailing as to any economic disadvantage attaching to him in the status of the independent dealer.

In order to study the reasons for chain store success from the competitor's point of view, there have been brought together in this chapter a discussion of the various basic chain policies. The following topics contain in brief compass the more important bases of chain store competition:

- | | |
|---------------------------|--|
| 1. Accounting. | 8. Organization (personnel). |
| 2. Advertising. | 9. Price policy. |
| 3. Buying. | 10. Selling policies. |
| 4. Capital. | 11. Service. |
| 5. Display. | 12. Specialization (functional). |
| 6. Location. | 13. Standardization (method). |
| 7. Management and method. | 14. Stock control (system) (turnover). |

As can be seen from looking over the above list, the subject matter is widely varied, covering practically the whole range of retailing activity. One factor may be more important for a particular chain than the others; ordinarily, however, the chain is operated on a principle of observing all or nearly all of these factors. Strictly buying advantages have tended, on the whole,

to diminish in importance. The independent retail merchant has learned a great deal in recent years about the advantages to be derived from the observation of the simplest rules of salesmanship and stock keeping. He still has a long way to go in learning how to advertise his store and his wares to best advantage.

Changes in Bases of Competition.—Since this volume was first published in 1921, the emphasis in competition has shifted from that between chain and independent, to that between chain and chain. This has brought with it a corresponding shift in emphasis on competitive factors. While buying in quantities is still an all-important factor, it no longer gives any pronounced advantage over a competitor. Another chain can buy at the same price, and so can the independent store owner who belongs to a buying association. Furthermore, the independent owners who have been trained in accounting and cost control—and the number of them is constantly on the increase—are no longer at a disadvantage in this respect.

Chain organizations have grown steadily during the last decade. Already the personal supervision of the pioneers, those men who started the chains and nursed them through their growing pains, has largely given way to corporate management, and the substitution of method and system for one-man control. The growth of individual chains has resulted in increases in the amounts of capital available for expansion and financing.

Advertising, which a few years ago was but the crudest form of price publicity, has already reached a stage in its progress where it compares favorably with the best form of manufacturers' efforts. The large chain system has a national field, whereas even the largest department store has but a limited market area. Similarly, the art of display has been improved steadily, until it now has developed certain principles upon which it can depend.

Accounting and control systems, with the increase in size of the chain systems, have grown in importance. The organization of personnel has become standardized to a greater degree than ever before.

Accounting.—Many independent stores keep no accounts; some keep partial accounts; very few keep full accounts. The whole efficiency of the chain store organization is based on careful accounting. Some companies have spent years in standardiz-

ing and rearranging their systems of accounts to make them more perfect. The necessity of accounting naturally appears paramount to the chain, where personal supervision of every detail is impossible. To the small retailer the necessity of accounting has been taught only by experience, and perhaps somewhat by the publicity which has been given to the subject in recent years.

It seems probable that for some time to come the chain will have the advantage over the independent store in accounting methods. Even though the actual system which the independent retailer adopts is a good one, there is not the same obligation to keep it up to date all the time. There is not the same expert scrutiny of costs and analysis of statistics. There is not the same incentive to make improvements in the system.

An accounting system serves two purposes: in the first place, it supplies operating information to the executive, allowing him to see the state of affairs in his business as a whole and also the state of affairs in any individual store; in the second place, it acts as a control which, in the best systems, is more or less automatic. Danger marks are set for expenditures, for buying, and for stock inventories. The accounting system eradicates the defects which are most often to be found in the independent store. The chain store operator knows, or should know, exactly what every item in his business operation costs. The independent retailer rarely knows, and still more rarely knows with any exactitude. He has a vague idea, perhaps, that delivery or credit is costing him too much, but how much he has never figured out.

It has been argued that the accounting system is costly and tends too often to reduce individual initiative to a cipher; that it takes too much of the chain store manager's time to make out reports. All this is of minor importance beside the savings that accrue through an accurate knowledge of costs.

Advertising.—It is difficult to estimate the exact weight of advertising in chain store success. It is only during the past few years that advertising, except in the most elemental forms, has played any great part. When the first edition of this book was published, in 1921, advertising was not important enough to warrant tabulation as one of the bases of competition. The growth of chains in size and resources has changed the situation,

making it financially profitable for the chain to advertise. Much of this change should also be attributed to the change from price competition to competition in quality, service, and customer satisfaction. A chain which sells purely on a price basis—and there are still many such—will sell mainly convenience goods (that is, necessities) which require little advertising. The margin of profit will be so small that the expense for advertising must be kept down. A good location and an efficient window display will keep the stock turning over.

Leading chains have long ago discovered, as the manufacturers of branded articles did before them, the power of advertising as a weapon in competition. One of the advertising features of recent years has been the institutional campaign carried on by the Great Atlantic & Pacific Tea Company to popularize the organization and the service rather than the goods sold. The chain store system has in advertising a distinct advantage over its independent competitor. It may reach out beyond purely local and sectional advertising to the national field. With the continued growth of chain stores the position of advertising as a retail-merchandising implement will become more important.

The time has already come when chain advertising is used to get business from chain competitors. Whether competition, by means of advertising, will progress to the point that it becomes an economic waste still remains to be seen. The probability is that a competitive price level will always remain an adequate protection. If a chain should advertise to such an extent that the selling price of its goods was materially affected, such a policy would automatically defeat its purpose of making more sales. A chain store system implies a degree of standardization in stock and methods which will keep it distinct from the independent specialty store, but which will also allow it to be advertised as a whole. It will probably be suggested by some readers that the independent retailer may develop some form of effective cooperative advertising. While this is possible, it is not entirely probable. Cooperation among independent retailers, especially in advertising, has never proved feasible on a large scale.

Buying.—It is not too much to say that during the beginning years of chain store growth competition was successful mainly because of economies in purchasing. The history of the chain

movement has been one long rebellion against the middleman's discount and an effort to buy nearer the source. The ultimate result has been an apparent victory for the chain; there are few manufacturers that now refuse to grant them quantity discounts. The chain, on the other hand, has also abandoned its intransigent attitude, and, if the public demands an article in sufficient quantities, it will supply this demand regardless of price concessions. It will not push the article, but it will stock it.

One of the developments in competition of late years has been the organization of retail buying associations, treated at length in the following chapter. These retail buying associations are able to purchase goods at the same prices as the chain. The result, however, has been to show that chain supremacy is not founded upon price discounts alone. The chain still does have a marked advantage over the independent store which does not belong to a buying association. The independent retailer cannot, as a rule, buy in quantities. He has no place to store surplus supplies, and, even though he did have the space, it would not be worth his while to put in a large supply, because of his inability to turn his stock fast enough.

The economies inherent in efficient buying will always be apparent, but, in general, the chain can no longer rely on quantity purchases as a corner stone in its merchandising policy. Other retailers, especially other retail chains, have the same avenues of supply open to them. Buying will continue to be one of the corner stones of chain success, but no more so than it is basic in the success of any retail venture. The primary bases of chain preeminence have developed further.

Capital.—The chain store has definitely joined the ranks of large-scale enterprise, with all the command of talent, method, and capital that this statement implies. It is not many years ago that the chain was compelled by force of necessity to build itself slowly out of profits. Today a successful chain has little difficulty in obtaining funds for promoting its growth rapidly. In the majority of cases, chain stores have proved highly profitable ventures for those who have invested in them.

The advantages of a ready command of capital are self-apparent: it permits expansion as rapidly as the management deems this desirable; it allows the erection of warehouses, the

purchase of smaller chains as subsidiaries, the use of widespread advertising, the employment of the best merchandising ability in the country; in short, the development of the chain to its full extent. It should be pointed out also that the initial growth of the chain out of profits was an essential part of chain development. Those chains in the early days which sought outside capital and expanded faster than the knowledge of chain retailing itself, sometimes failed or had to submit to drastic reorganization.

It is still possible for a small chain, without large capital reserves, to compete with the larger chains. There is, nevertheless, a certain disadvantage to the smaller enterprise. The larger competitor is a safer financial risk. It can, moreover, take advantage of opportunities which are closed to the smaller company. It can buy up the whole output of a manufacturer in distress, just as the large department store has been accustomed to do. The large chain labors under certain disadvantages in its size and impersonality, but it is not hampered by monetary stringency.

Display.—The department store was the pioneer in developing the art of merchandise display, but the chain store system has been an apt pupil. It has gone even to the extent of making a display of itself. The familiar red front—red because red is the color which has the greatest power of attraction—is a constant and standardized display. The chain store has learned a lesson which the independent competitor, generally speaking, has not yet absorbed, namely, that “goods well displayed are half sold.”

It can be granted at the outset that there is nothing in chain store display which cannot be as readily utilized by any other retailer, but the fact remains that the chain still excels in display. Even the apparently heterogeneous collections of merchandise to be seen in the windows of a variety store are selected for display with the same care and attention to buyer psychology that is given to the choice of articles on the page of a Sears-Roebuck catalog.

The importance of display varies with the type of chain. For a five-and-ten-cent chain, such as Woolworth's, display is the all-important item in selling the merchandise. The salesmanship of the salesperson is devoted mainly to receiving money

from the customer and doing up the purchases. The use of display to this degree is naturally limited to a type of merchandise of low cost and display potentialities. Where salesmanship is required, displays are primarily designed to induce the customer to enter the store.

As in the case of many other bases of competition, the chain store has no monopoly on window- or store-display talent. It can, however, afford to employ an expert window-designing force. It knows to the full the value of displaying plainly the price of articles. In many cases, it also has some method of determining the sales value of its various windows and of the articles displayed in them.

Location.—"There is a right place and a wrong place to locate a store," said F. W. Woolworth. "Put your stores where the dollars stick out," was the manner of expressing this same sentiment used by B. H. Kroger, founder of the Kroger Grocery & Baking Company. The ability of the chain organizations to pick and choose the spots which made failure unlikely has been one of their strongest assets in retail competition. The independent retailer, as a rule, does not know how to locate his store. He has in the past been known to shun good locations because of the proximity of a chain store, so fearful has he been of the devastating effect of price comparisons.

In the past decade, location has become almost a fetish. Possible sites for retail stores have been graded and valued and listed. Experts in chain store locations have vindicated their claims by the scores of successful sites which they have picked. It still holds true that location is an integral part of chain store success. One of the fundamental maxims of chain store operation is to make it easy for the customer to buy, and the simplest way to do this is to locate the store where it will be most convenient for the customer to make his purchases.

The result in some cases of excessive competition for locations has been the rise in rentals to heights which make a second-rate location almost as good if not better.

Management and Method.—The fundamental difference between the chain store and the independent store, as several authorities have pointed out, is one of management. The chain store is almost invariably headed by expert retail merchandising

talent. The independent store must rely for all its initiative on the owner. The pioneering days of the chain store are almost, if not entirely, over and done with. In the majority of cases the founders of the early chains have retired from the active supervision of the business, surrendering this to well-trained and competent assistants. The chain system is no longer, in other words, a one-man business. While this may retard to some extent the boldness of initiative which distinguished the earlier pioneers, it makes for much greater stability to have decisions handed down by a board of directors rather than have them based upon the judgment of one man. This is but the same process which long before had been carried out in the case of manufacturing enterprises.

Chain store management must carry out its ideas and directions largely by means of methods. The personal supervision which often forms such a large part of success in any business must here, of necessity, be lacking in great part. Even in a manufacturing concern, the superintendent can make daily rounds and see with his own eye that everything is being done according to his wishes. The superintendent of a great chain system must delegate almost all the work of supervision to subordinates. He must train them to carry out his commands, and he must see that methods are employed which will furnish the information necessary for him as manager to have.

Management, as can be readily seen, may be one of the chain's strongest or weakest points. An intelligent, loyal, and well-trained personnel, working under a minimum of "red tape," is far more efficient than an independent store can ordinarily hope to be. If, however, there is friction, lack of loyalty, dissatisfaction, failure on the part of supervisors to insist on store policies' being carried out, the chain quickly becomes vulnerable to competition and profits fall off. That such a condition is rare argues well for the character of chain store management.

Personnel Organization.—The question of the men who make up the organization of the chain system naturally follows on that of those who lead it. The store managers and clerks have always been cited as the chain's weakest point. Probably this is true. Human nature is difficult to standardize, especially from a distance. It is even more difficult to keep it interested

without some strong incentive, such as that furnished to the independent retailer by personal profit.

If the personnel is the chain's weakest point, everything that can be done to make it as strong as the rest of the organization is being tried out in different ways by different chains. There has been a constant increase in the emphasis put upon personnel training. It is agreed, practically without question, that the store manager should share in earnings. He is thus given, to some extent at least, the same incentive which acts so powerfully in the case of the independent owner. In some of the larger chains it is now customary to have a personnel director. This does not generally apply, however, to grocery chains as yet, though the time will doubtless come when the personnel director will be one of the major executives in all large chains. It will be his function to see that the personnel of the chain is in every way equal, if not superior, to the personnel of the independent store where all the hired help is under personal supervision of the owner.

The quality of the personnel in various chain organizations shows considerable variety. Even in two rival grocery chains operating in the same section it is possible to notice a distinct difference between the character of service given customers. This is usually not so much the fault of the individual store managers as it is of the personnel direction of the organization. Such chains as the United Cigar Stores Company have been notably successful with their personnel. Generally, the situation is improving in the chain field.

Price Policy.—Comparatively few years ago, price was a paramount consideration. The chain systems were regarded as price cutters pure and simple. The independent store claimed that it was being forced out of business unfairly because it could not meet the chain price. It took years for the truth to penetrate that the barrier of price competition was not an impossible one to surmount.

Price is always bound to be a basic factor in competition. However much it may be hedged about with services of various kinds and high-pressure salesmanship, in the end there is no getting away from the question of comparative prices. The department stores realize this; hence their so-called shopping

department, which is nothing more than a detective service to report on competitors' goods and prices.

Much obloquy has been heaped upon the chain for its policy of selling standard goods at cost, and sometimes perhaps somewhat under, for the purpose of attracting customers to the store, on the theory that once inside they will purchase other goods. This is the so-called "loss leader" policy. On the whole it has been successful; competitors have been slow to follow suit; independents have never adopted it whole heartedly.

The average chain store can still show a lower price than its independent competitors. It must be recognized, however, that the services which it renders are considerably less. There is as yet no pronounced tendency to advance credit on the part of chain stores. Many grocery chains, on the other hand, have organized a somewhat informal delivery system, as by means of schoolboys hired after school.

If a chain could give service and still keep its price down, it would have a tremendous competitive advantage. But the fact is that methods and practices of two rival chains in the same field are so standardized that the price level between them remains fairly constant.

Selling Policies.—In the knowledge of merchandising, the chain store is considerably ahead of independent competitors. In the first place, it knows what it wants to sell; there is no dead stock on the shelves. In the second place, it knows how to sell what it buys, and it insists that the sales force sell according to certain set rules laid down by the management.

The task of the chain is lightened by the standardization of the merchandise carried. It is much easier to sell the customer something she wants than to convince her that she wants what you have to sell. The policy of the average chain in respect to branded goods carries out this idea. The chain and the manufacturer of branded goods started out by being distinctly unfriendly to each other. The chain tried its best to push its own private brands against the nationally advertised goods. Sometimes the manufacturer refused to sell the chain. The present situation is one of watchful waiting. The chains sell the manufacturers' brands at the customer's request; they take advantage of the demand which the manufacturer has created. This

advertised merchandise is normally priced above the store's own brands and the customer may make his choice without any pressure on the part of the chain store sales clerk.

The selling policies of the chain are directed towards the satisfaction of the customer, a secret which was previously discovered by the department stores, and which has not yet become universally clear to independent retailers.

Service.—The independent retailer has always consoled himself and his supporters by saying:

"I give service to my customers. I furnish them with credit; I deliver merchandise to them; I personally attend to their wants. For this I must charge enough extra to cover the added cost."

Experience has shown, however, that the chain store manager has at his disposal almost the same means of pleasing the customer as has his independent competitor.

The purpose of the various services rendered to customers—and these services vary widely in practice—is to secure the goodwill of the customer. The ability to get customers to come back again is often the secret of a particular store's success. The chain store is playing a prominent part in the present trend towards the decentralization of retailing which is taking place in many quarters of the country. Owing largely to the city congestion of traffic, the neighborhood trading centers have become increasingly important. More and more chain stores are locating in smaller trading centers as well as in large ones, and are becoming integral parts of their respective communities. Hence the securing of goodwill in the locality is one of the primary bases of competition.

Service consists, in the ordinary definition, mainly as the giving of credit and delivery. Actually service covers everything which conduces to customer satisfaction. The conduct of the salesperson towards the customer, his knowledge of the goods on the shelves, the promptness of the attention given the customer, the manner in which he meets complaints, and the way he thanks the customer for the purchase are all parts of service.

Specialization.—Under ordinary conditions the independent retailer cannot be a specialist, while, by force of circumstances, the chain must be a specialist in the lines of merchandise it

carries, in the methods it uses, in the departmentization of its business with experts at the head of each department. It is only another manner of saying that the manufacturing principle of division of labor has now become applicable to retailing. This division has taken place along functional lines. There are many activities, for example, which the chain must undertake which are not strictly selling activities. Thus, window display, advertising, location of stores, insurance, and the like are all handled by experts in the chain system. In the independent store, such activities are either disregarded or handled at a disadvantage.

Much of chain success can also be attributed to its specialized buying staff. The chain buyer goes to the source of supply; the independent, unless he belongs to a buying association, waits until the jobbers' salesman pays him a visit.

In any discussion of bases of competition, the best that can be attained is to present the situation at the moment. Competition is a subject which, by its very nature, changes rapidly. The rise of the chain store helped to disorganize retailing; the retailer of today would find little resemblance in himself to the retailer of 1910. The ancient form of retailer can still be found in remote country districts, but he is rapidly becoming extinct. Even in independent retailing the trend has been towards specialization in lines of merchandise carried. The general store has yielded to the specialty store.

Standardization.—Just as the chain has had to specialize along functional lines, it has had to standardize itself throughout. One of the great dangers with which it has to contend is too much red tape. As in the case of the centralized government of a country such as France, there is a constant tendency towards too much bureaucracy, too much method, and too little opportunity for the exercise of personal judgment. Yet the chain must set up standards and enforce them as well. It must compel the methods in one store to duplicate in so far as possible the methods in any other store in the chain. This is not only a weakness; it is also a strength. If it prevents the exercise of the greatest degree of initiative on the part of an enterprising manager, it also prevents any marked deterioration in excellence of service on the part of the less capable managers. Many

chain store managers are men who would normally have been independent retailers but who are not possessed of sufficient ability to run a store themselves. They prefer the assurance of a job and a steady, although comparatively small, share in profits to the uncertainty of existence as an independent.

The process of standardization is extended to almost every phase of chain activity; the stores are alike in appearance; the interior equipment is the same; the stock and the position of the stock on the shelves of one store corresponds to that of any other store in the chain; the instructions given for running the stores are identical. Each manager has to fill out the same forms daily; to carry out the same routine of caring for cash, of locking up for the night, of all the detailed minutiae of store-keeping.

It is this system of standardization, this enforced standard, which renders the chain form of retailing possible. Some chains are extremely jealous of the methods which they have developed and perfected. They recognize that it is in the standardization of their business that some of the best opportunities for effecting savings and increasing profits lie.

Stock Control.—Chain store retailing has been responsible for bringing out clearly the dollars-and-cents value of a rapid-turnover policy. Even more than quantity buying and quantity discounts, turnover of stock has been instrumental in permitting chain stores to lower the cost of distribution. It is a generally accepted chain store axiom that profits should be made from turning goods quickly at a low profit rather than less often at a higher margin of profit.

The majority of chain stores have taken over the jobbers' former function of warehousing, which ensures to them a much closer control of the stock from the moment of purchase from manufacturer to its actual sale over the counter. The necessity of caring for stock has caused the development of many inventory systems designed to indicate not only how much stock is on hand but the danger points at which new stock should be ordered.

It is furthermore to be noted that standardization has been applied rigorously to chain store stocks. A happy mean has been struck between the variety which will please the customer and the simplification which will ensure rapid turnover. This

leaves the selling of specialty lines mainly to the independent retailer, a condition which will probably continue. Chain operation, at least for a long time to come, will be confined mainly to items which can be fairly well standardized.

Other Bases of Competition.—The bases of competition enumerated in this chapter are the more important and obvious ones. Nevertheless, there are many other factors which play important parts in the activities of certain chains. There are, for example, many aspects of cost control which may have been emphasized, such as salvage of damaged stock. There is the practice of removing goods from a store in which they are not selling to another store where they may be disposed of.

From an analysis of the essentials of chain store competition as discussed in this chapter, it is apparent that there is nothing mysterious or phenomenal about it. It is nothing more than the scientific application of business principles to the problems of retailing.

No retailer can truly estimate his position without a knowledge of the competition which he is compelled to meet. The analysis of competition becomes both an executive and a local function. In every case, the attitude of the retailer, whether chain or independent, must be to please the public, to sell the public what the public demands, to treat the public with every degree of consideration and service. The degree of success of the chain must be measured finally by the degree of public approbation of its executive and merchandising policies.

CHAPTER IV

THE CHAIN STORE AND DISTRIBUTION

The chain system of retailing is no longer a parvenu in distribution; it has arrived. While there is still sporadic opposition here and there, in the majority of instances it is recognized that the chain store is founded on sound economic principles, and that it is a permanent adjunct to the retailing field, just as are the mail order house and the department store. Both the latter forms of retailing had to contend with bitter opposition in the initial stages of their growth. The chain store, coming later, had to meet similar opposition, in many cases more bitter because the disturbance in existing retailing practices and policies was more profound and more widely spread.

It is difficult for anyone but an outsider to discuss the chain store situation without prejudice, although this discussion is now much easier than it would have been even a few years ago. There are at least five different groups which have a vital interest in the status of the chain store. These are:

1. The Manufacturer of Goods Sold through Chain Store Systems.—In many cases, the manufacturer has found himself competing with the chain's private brands. He has had the problem of price cutting on his hands, which he has almost always regarded from the other side of the fence from the chain. He has had to listen frequently to the complaints of jobbers and independent dealers as to chain practices. In some instances, he has been friendly to chain development; as a rule he has yielded to the pressure of the inevitable, recognizing that if he did not take advantage of this new market outlet, one of his competitors would seize it first.

2. The Wholesale Distributor.—Between the jobber and the chain there has been war to the knife. The fortunes of war have varied, but, in general, the laurels have remained with the chain. What victories have been obtained by jobbers through the courts

have been insignificant. Chains now in most cases buy direct, and in many cases obtain special quantity discounts. The ultimate position of the jobber is not yet settled.

3. The Independent Store.—Here again the entrance of the chain store has been marked by keen competition, and the result has been the retirement from business of the more inefficient independent dealers, and an active reformation in retailing practices of many others.

4. The Competing Chain System.—The real competitor of a chain system is another chain doing business in the same locality and selling the same type of goods.

5. The Public.—A large section of the public is convinced that the chain store has reduced the costs of distribution. On the other hand, persistent lobbies of anti-chain interests in certain states have attempted, and in a few cases, actually passed discriminatory legislation against chain stores.

These various problems are taken up in further detail in the following pages.

The Chain and the Manufacturer.—It was found very early in chain store development that it was possible for the chain to make products and put them on sale in the chain's own stores at a lower price than nationally advertised articles. These private brands became a bone of contention and remained so for many years. At one time, the founder of the Great Atlantic & Pacific Tea Company, George H. Hartford leaned heavily to private brands, but his keen business sense ultimately convinced him that the best policy was to sell the public what the public wanted. If it preferred nationally advertised goods, it was more profitable to satisfy this demand than to have the customer go elsewhere. The manufacturer can now be fairly certain that he can get the chain to stock his goods if he is willing to create a large enough demand for them by advertising.

In the grocery field, the private brand has become firmly established. Such items, for example, as bread, coffee, tea, and butter are often marketed under the chain's own name.¹ The possibility of making an added profit is probably the major

¹ See article in *Harvard Business Review*, October, 1924, by Wadsworth H. Mullen, on "Some Aspects of Chain Store Development," which goes at some length into the question of chain private brands.

reason for pushing private brands, but there is also the advertising value of a standard brand to a store with wide distribution, which certainly has much weight in determining a private-brand policy.

In the drug field, a rather peculiar situation exists. The United Drug Company advertises nationally, locally, and by means of dealer helps. It has made the trade name "Rexall" known throughout the country. A drug store, however, usually must carry a wide selection of merchandise, and it becomes extremely important to insure rapid turnover. Certain smaller chains pursue an inflexible buying policy which includes only nationally advertised, staple lines. Executives of such chains have expressed it as their opinion that the average independent drug store fails to progress because it does not turn its lines, and its shelves are cluttered with goods for which there is little demand. The larger chains, however, have been able to merchandise many items which would not normally come within the range of the average drug-store chain.

The shoe chain can be cited as an instance where the private brand is predominant. On the other hand, the tobacco chain sells manufacturers' brands almost entirely. The extent of the private brand varies, apparently, with the nature of the product, and with the strength of manufacturers' advertising.

E. A. Filene, whose success in department-store retailing, and whose long study of the subject of distribution, give his opinions much weight, is firmly convinced that syndicate buying and selling is the ultimate form of distribution. He goes so far as to maintain that small individually owned stores must form chains of their own, retaining individual ownership but with centralized executive and staff organization, if they wish to survive. Even department stores, he thinks, will have to organize into chains. The question of the advertised brand of the manufacturer, and the private brand of the chain, will, therefore, become increasingly important. It will largely be a question of the control of the sale of the brand. On the one hand, the owner of the nationally advertised brand cannot afford to give distributors full control. On the other hand, the distributor cannot afford to establish a brand the sale of which may be taken from him at any time. Undoubtedly the chain will continue to buy

nationally advertised brands as long as they offer the best values. The retailer can make his bargains with competing manufacturers, and the best values will survive. Mr. Filene suggests some form of joint ownership of a brand by retailer and manufacturer.

Manufacturing by Chains.—The question of the chain which is also a manufacturer is closely allied with the problem of private brands. Generally speaking, the practice is not widespread, but the threat is always present. On the part of the grocers, the business of manufacturing their own brands was taken directly from the practice of the jobbers and wholesale grocers, 75 per cent of whom had for a long time been manufacturing. Many grocery chains now bake their own bread; some of them roast their own coffee.

The World War, shutting off as it did a great deal of importation from Europe, was a great stimulus to chain manufacturing in certain lines. The F. W. Woolworth Company, particularly, took this opportunity to start manufacturing many articles.

The United Drug Company, an association of manufacturers, has provided for the sale of its products not only through its own chain of stores, the Louis K. Liggett Company, but through an extensive chain of agencies. The United Cigar Stores Company, which manufactures many of its own brands, pursues this same policy of extending sales through agencies into districts which are hardly large enough to support one of the company's own stores. The Winchester Stores Company has attempted this same scheme of obtaining distribution for manufactured products, and this method is used by the majority of the manufacturers' chains. The advantages of manufacturing by the chain are:

1. It gives the chain an unfailing source of supply of goods to sell, in uniform quantities, and of uniform quality;
2. It tends to keep the price of advertised articles down.

But independent manufacturers need have no fear that the manufacturing policy of the chain will do away with all demand for their products, provided they are merchandised properly. The customer of the chain store can be sure of getting what he asks for.

In several cases, chain systems manufacture a great deal of the equipment and supplies used.

Substitution.—What is meant by substitution? There is a difference of opinion on this point. Some maintain that it is limited to wilful delivery of one package in place of another. Others contend that it is the sales effort of the clerk to induce the customer to "take something just as good." The chain store organizations claimed that it was a fundamental rule never to substitute, but always to give the customer what he wanted if it was in stock and never to attempt a sale until after the customer had made his choice. The manufacturers claimed that the bonus which many chains give to their clerks as a reward for selling their own goods made it impossible for the chain to stop substitution even though it desired to do so.

In view of this difference of opinion, the report of an investigation of the Liggett stores in Greater New York, made by J. A. Murphy, representative of *Printers' Ink*, and by the president of a large pharmaceutical company which manufacturers and distributes some 2,000 items, is informative. Report had come from checkers that the Liggett stores were flagrantly practicing substitution, and, with the company in question, substitution was fairly easy because the company had stopped advertising.

All but five or six of the 72 Liggett stores on the list were covered. Mr. Murphy asked either for Baume Analgesique Bengué or Scott's Emulsion. To make matters doubly sure, he often wrote the name of the former product on a slip of paper. The president of the pharmaceutical company asked for his own products. Both men pretended not to know each other.

In the first half-dozen stores requests were made in a brisk and business-like manner. There was absolutely no attempt to substitute or to sell additional merchandise.

In the next group of stores visited, the requests were put in a less positive fashion, something like the following: "A small bottle of Scott's Emulsion. Scott's is the best, isn't it?" The answers varied from "It is a very good brand," "It is the best known," to "We carry several."

Although this investigation was made some years ago, it is still indicative of chain policy today. There is, however, another aspect of substitution, that where a store carries one

manufacturers' brand and the customer asks for another brand. One of the smaller chain quotes its experience as follows:

We don't handle Gold Dust, Grandma's Washing Powder, Rub-No-More and a dozen other soap powders. Instead of these, we standardize on Sea Foam soap powder, buy it in carloads and push it hard. If a woman comes into one of our stores and asks for Gold Dust, the clerk (if he is any good) will tell her why we do not handle it and that Sea Foam will do anything that any other ordinary soap powder will do. Maybe he sells her a five-cent package of Sea Foam and, if she likes it, we have made a new customer. Frequently, of course, she will not listen or refuses to try a substitute. But a chain store has to cater to the majority, and there are so many advantages in simplifying our stock that we do not worry about the occasional customer who wants something else.

Most retail and wholesale grocers get loaded up with a lot of dead goods that nobody wants. We take on new items, now and then, but generally drop an old item when we do. Recently, at one of our managers' meetings, considerable desire was shown for us to stock a certain baking powder, an advertising campaign being then in full force on this item. We called for a vote and found that more stores wanted Rumford's (which we already handled) than this other brand. We chose, therefore, to stay with Rumford. We do not wish to divide our business between too many items, because that means we should have to buy in lesser quantities, lose our quantity discounts, and also not be able to turn over our stock so frequently.

The Chain and the Wholesaler.—The wholesaler in late years has been the victim both of progress and of his own mistakes. He has been attempting to maintain his position in the face of public insistence on reduction in the costs of distribution and a determined endeavor to shorten the path between producer and consumer. He has made his uphill fight often blindly and without coordinated effort. He has taken his stand on impossible issues. He has advocated fixed resale prices, hoping in this way to stabilize his own business. He has asked manufacturers for larger discounts, without endeavoring to give greater service in return. He has failed to grasp his obligation to the public; he has not selected the goods which were the best values; he has lost touch with the consumer. As Joseph M. Fly, himself once a wholesale grocer and now a chain store operator, said before the National Chain Store Grocers' Association:

The wholesale grocer in the last several years has literally picked himself to pieces . . . there are as many different kinds of so-called jobbers as Heinz has pickles.

Mr. Fly believes that, in spite of 6,000 jobbers of wholesale groceries in the country, the wholesale grocery business as a national institution is now on its last legs. The jobber may organize groups of retail stores individually owned, but this field is limited at best. In most cases, through lack of combined experience and coordination of effort, such hybrid chains will fail. He believes the jobber will yield to a floor-stock broker representing the manufacturer, who will maintain no warehouse of his own. He points out how already the wholesaler has been forced to specialize, forming the following groups:

1. The manufacturing wholesaler.
2. The old-line wholesaler functioning chiefly as a source of credit for the retailer.
3. The cash-and-carry wholesaler trying to reduce the cost of his services.
4. The desk jobber offering the lion's share of manufacturing trade discounts apparently for the sake of cash discounts.
5. The wholesaler sponsoring the group-retail-store idea in imitation of the chains.

While the picture as painted for the grocery trade may be unduly dark, it remains true that the wholesaler has antagonized the chain unnecessarily in many cases, particularly in his efforts to obtain antichain legislation in state legislatures, and in his efforts to prevent direct buying. In this latter connection it is interesting to note that certain large manufacturers have already eliminated jobbers and are going to the trade direct. The National Biscuit Company has been marketing direct for several years; the Heinz Company has always sold direct; while more recently the Proctor & Gamble Company has chosen the more direct method of distribution.

The Chain and the Independent Retailer.—Will the small retailer ever go out of business?

As far as any definite answer can be given, it is "No!" The small retailer can obtain a hold on a certain section of the public through forms of service, square dealing, courtesy, handling low-turnover goods which are in small demand but which some of

his customers wish, and by carrying an extra good line of something else as an added attraction.

Many people who go to a grocery store do not like to experiment, and they wish someone to choose for them. If they know a certain retailer will send them good fresh lettuce, fruits, and vegetables, they will buy there and pay the extra price. It is the same point which nationally advertised goods are hammering home all the time. "Don't experiment. Our goods are always the same. The other fellow may be all right but you can always rely on us."

One grocery-chain expert who has studied the question of independent competition has noted the following methods by which independent chain store retailers have been trying to hold their business and even increase it:

1. Several retailers have installed window bakeries and feature fresh-baked bread, cakes, etc.

2. Others have joined a corporation which enables them to buy groceries direct and save the jobbers' profit.

3. A few have opened confectioneries in connection with their grocery stores, so they can stay open Sundays.

4. A few have combined groceries and meat markets with good success.

5. Many little grocers have gone into market houses, where a small stall can be rented and where a comfortable retail business can be built up without much risk or high rent.

It is well worth quoting the opinion of an official of one grocery chain in regard to the status of the independent grocer.

He predicts a "war" between the various distributors of foodstuffs, because the cost of living must be reduced, and that means eliminating the bad accounts, the inefficiency of small grocers, and the other unnecessary expenses incidental to the old-style method of conducting a grocery business.

There are more failures in the grocery business every year, according to this authority, than in any other line of business. Ne'er-do-wells and dreamers who have a few hundred dollars to spare start a grocery store and settle back for a long lifetime of easy profits. Others start stores and let their wives and daughters run them while they keep on with their regular jobs. Such "grocers" are easily stampeded into buying too much, they have

no grounding in the rudiments of business, and have not the stamina to carry them through when business is a little slow. Most of them just choose the grocery business because "if we can't make it go, we can eat our stock ourselves."

In the retail-drug field, the chain and independent stores have lined up against each other in two opposing camps. According to D. C. Keller, president of the Dow Drug Company, of Cincinnati, and also president of the Associated Chain Drug Stores, the reason for this severance is twofold:

1. The professional druggist is loth to yield the traditions of his craft, and, as a class, by training, environment, and experience, is not equipped to keep step with rapidly developing transitions.

2. A small group of agitators, disturbers, and trouble makers, for selfish purposes of personal profit and aggrandizement, constantly endeavor to persuade the smaller retail druggist that the chain drug store is a personal enemy of every independent druggist. The wholesale druggists, envious and hostile to the chain store, aid and abet the reactionary stand of the independents.

One of the last stands of the independent retailer has been on the Pacific Coast. San Francisco was one of the last places for the chain to enter. The independents fought bitterly, going to the extent of subscribing to a war chest so that, when the chain cut prices, the independents could cut prices also. When the Piggly Wiggly San Francisco Company took over in 1925, an already operating chain, of 11 stores, the independent-grocery trade journal summoned its subscribers to make war. Nevertheless this chain succeeded in putting its stores on a profitable basis in a fairly short time.

It has been noticed time and time again that the coming of a chain store to a community invariably livens trade and helps the consumers. As far as the already established independent dealers are concerned, it is either kill or cure. Every now and then, stories are printed as to how an independent retailer started a store in the face of the strongest kind of chain competition, and made a great success. The question here, however, is whether that energetic independent dealer will be satisfied to limit his activities to one store, or whether he will not soon be

starting a chain of his own. If this independent has sufficiently mastered the principles and practices of retailing to enable him to beat the chain at its own game, and this is possible on occasion, there is no reason to suppose he has not the material in him to make a successful chain operator.

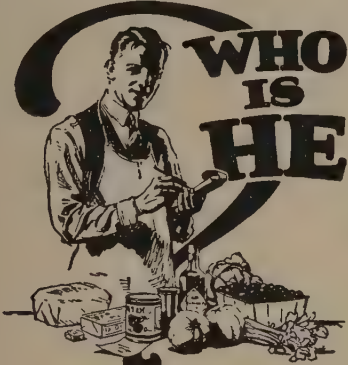
Cooperation among Independents.—Cooperative buying among independent retailers has increased tremendously of late years. In the department-store field especial development has taken place. In the grocery field, there are buying associations in Chicago, Detroit, Cleveland, Cincinnati, Milwaukee, Omaha, and many other cities. The extent of buying varies widely, in certain cases applying only to staple lines, while in others the wholesaling company will be owned outright—a practice to be found frequently in the drug field.

The cooperative-buying movement is distinctly a defensive one. The independent retailer is forced to join it by necessity, not because he really wants to do so. He is often disappointed because he does not find that he makes as many economies as he had expected. He often becomes dissatisfied and the result is failure to cooperate. Nevertheless, these buying associations are of considerable help to the independent and hard-pressed retailer. Particularly when these groups are fostered by wholesalers, endeavor is made to educate the members of the association in display and other sound retailing practices.

One of the groups which has attempted to suggest methods of selling, display, and credit, to its members is the Service Store Grocers' Association of Chicago, consisting of 150 grocers and 4 jobbers. The character of advertising carried on by this group is shown in Fig. 2. It mentions no names, quotes no price, and endeavors solely to "sell" the idea of the service grocer to the consumer. Each grocer pays a certain amount monthly. In addition to cooperative advertising, a monthly merchandising bulletin is published, which attempts to show members how they can improve their retailing methods. Figure 3 shows a page from this merchandising bulletin. In addition, members meet monthly.

In Omaha, a buying association was formed by some 70 grocers on rather a unique plan. Buying was apportioned among the individual members. For example, one grocer will

buy all the butter, eggs, and poultry for the group; be billed for them individually, and makes payment. The other members secure their wants of him at cost. Another grocer will act as buyer of flour and cereals; and still another of canned goods. The organization meets once a month to discuss its affairs.



WHO IS HE

HE is a resident of this city. His clerks, cashiers and delivery men are residents of this city—all boosters of this city.

HE owns and operates his own store.

HE and his employees spend their money in this city for real estate, clothing, shoes, flowers, furniture, hardware, building materials, automobiles, stocks and bonds, etc. The money he receives is not shipped out of town to a Wall Street headquarters.

HE pays city taxes to help support the city schools, build and maintain streets, police and fire departments and other public institutions.

HE makes donations to the churches, hospitals and other charitable institutions and organizations of his city.

HE offers you telephone, delivery and other services without extra charge.

HE offers you quality goods at prices that are right.

HE will exchange your purchases or give you your money back if you are not satisfied.

HE IS

Your SERVICE STORE GROCER



THIS EMBLEM IS YOUR PROTECTION

LOOK FOR IT IN BUYING GROCERIES

CALL BUCKINGHAM 9601
FOR THE NAME OF YOUR NEAREST SERVICE STORE GROCER



Help Yourself to a free hour a day!

WOULD an extra hour a day, all for yourself, appeal to you?

That's just what our special "Phone for Food" service can save you.

You don't have to leave your home to shop for your groceries because we guarantee to select the same for you as carefully as you would in person. Then we deliver to your door without extra charge. No need to dream for market and lug bulky bundles of groceries. You are always welcome to visit our stores when convenient. Otherwise—

PHONE for FOOD from any SERVICE STORE GROCER



THIS EMBLEM IS YOUR PROTECTION

LOOK FOR IT IN BUYING GROCERIES

CALL BUCKINGHAM 9601
FOR THE NAME OF YOUR NEAREST SERVICE STORE GROCER

FIG. 2.—Typical service store association advertisements. (*Business.*)

A good example of the jobber-engineered chain is to be found in Buffalo, N. Y., where Granger and Company, wholesale grocers, have inaugurated what is known as the "Arrowhead Plan." It had great difficulties to overcome, as the territory was already in the hands of chain stores to the extent of 60 per

fully with the chains. The store owner's name was to appear on his sign, but the sign was to be decorated with characteristic Arrowhead Store colors, and Arrowhead displays were to be used in the windows, as planned by the central office at Buffalo. The stores were to specialize in nationally advertised goods, and run them as specials, much as the chains did. Photographs of window trims are sent, together with very careful directions, such as the following:

Materials Used in Trimming This
Window

14 bars Sunny Monday Soap.

14 small cans Granger's 3-minute Oat
Flakes.

10 large cans Granger's 3-minute Oat
Flakes.

6 large boxes Gold Dust Washing
Powder.

28 large cans Gold Leaf Tomatoes.

8 small cans Gold Leaf Tomatoes.

2 displays Kraft Cheese.

To trim this window, cut a fold of Dennison's crepe paper for the top. The lower end of the side drapes are tacked to the floor on an angle. Cut off three-quarters from the bottom, gather the ends, stretch to the top of the window and tack. When the drapes are of different colors, you can cut a narrow strip and run it up each side of your drape. This will set off the drapes to good advantage. The material listed above is then placed according to the arrangement in the photograph.

It is claimed that this plan is working out well, and there are several other similar plans, some of them extending to distinctly rural territories where local stores have been almost overwhelmed by the advent of an up-to-date chain branch. The prospects of success, however, are not particularly inviting. In estimating the strength of these cooperative movements, certain points should be considered carefully:

1. The bonds of union are not firmly enough united in these loose associations to permit enough centralized control by which to enforce efficiency.

2. There is a constant tendency for members to break away, either through dissatisfaction or sheer inertia.

3. The member stores will necessarily differ to a great extent in the ability of the owner and the market problems to be confronted.

The wholesaler can undoubtedly save money for the stores by acting as their buying agent. He may even be able to teach them some of the valuable experience in his possession. By cutting down his own discounts, he should be able to reduce the retail price somewhat. The odds, however, are still in favor of the chain store, with its closely knit organization, its close supervision of detail, its command of merchandising talent, and its comprehension of market needs.

Chain Competition with Other Chains.—Competition between chains, unlike competition between chain and independent, does not always result in benefit to the consumer. There is a very real danger that chains may compete among themselves to a point where the public is served no more economically by them than by independents. One of the factors which has already diminished the cost-reducing ability of certain chains is the high rents which must be paid for 100 per cent locations in the 100 per cent districts.

One of the outstanding dangers to the chain store grocer is the likelihood of a trade war when he enters a new field. Frank D. Bristley, vice-president of the Royal Baking Powder Company, is authority for the statement that, at best, a store operating on a strictly cash-and-carry basis ought not to hope for more than a third of the grocery business in a neighborhood. For every cash-and-carry store, two credit and delivery service stores are needed. He believes that when chains destroy this ratio, they promote destructive competition of chain against chain.

The time has already come, in the grocery field at least, when neighborhoods already apparently well supplied with chain outlets, are invaded either by an extension of a local chain or by a branch of an out-of-town chain entering the territory for the first time.

Albert S. Marks, president of the Almar Stores Company, of Philadelphia,¹ believes the best method of minimizing the risk of invading competition is to cover the territory so well that no invader will find it profitable to break into it. He admits that in a large city this is virtually impossible. All a chain can do is to expand as rapidly as its resources admit, and rely on goodwill to protect against the invasion which will sooner or later occur. Some loss of business is to be expected when another store of the same kind opens its doors in the near vicinity. The invader is usually willing to enter a price war. That is, it cuts its own prices, and if the old established stores meet this cut, then the price war is on. If, on the other hand, no attention is paid to the new store's price cuts, then loss of business and goodwill results. It is apparent that the more successful a chain store, the more it is likely to have competition on its hands from other chains, anxious to share in the profits. If a chain store is barely covering expenses, and a new store sets up in business, then it is at once a survival of the fittest. It sometimes happens that a chain will have to give up its store; in many cases, it may have to operate for a time at a loss. In every case, the manager of the chain meeting this new competition must be supported and encouraged. If, through no fault of his, business falls off so that he earns no bonus, a special exception may be made in his case.

The Chain and the Public.—In the end, the chain store must rely on the public for its support. At no time has public support of the chain store been so unanimous as now. Opposition is almost entirely to be found in the ranks of independent retailers and wholesalers who have not yet seen that the chain store is here to stay and that it has profoundly affected all retailing.

Hubert T. Parson, president of F. W. Woolworth Company, tabulates and refutes objections to the Woolworth chain as follows:²

As far as the value of a Woolworth store to the community is concerned, the store manager becomes a local resident as soon as he takes charge of a Woolworth unit; he has a direct interest in the prosperity of

¹ See *Chain Store Age*, December, 1926.

² See *Chain Store Age*, January, 1928.

the community because he shares in profits of the store, which in turn depend on the community; the taxes on the Woolworth store are as large as, if not larger than, those paid by other local merchants; the Woolworth company supports the local activities of every community in which it operates, while support is derived from only a minority of the other merchants. The Woolworth Company appropriates a definite proportion of sales from each of its stores for contribution to local activities. Local banks are used for deposits; local help is employed, with the exception of the store manager, who at appointment becomes a local resident. In regard to the claim that the retailer is entitled to the support of his neighbors, it is at once apparent that the function of retailing is not to provide a living for the retailer but to provide a service to the public.

Further than this, as Mr. Parson points out, the chain draws much trade to a community which it would not otherwise attract; it sets up higher standards of retailing; it offers the public greater stability than an independently owned store. Finally, it is pointed out that the chain offers to its managers, in the majority of cases, a better opportunity to make profits and to keep a more secure position than can be offered by an independent store.

What has been stated for the Woolworth Company holds generally true for other types of chains. A city dweller going into a country village without a chain store at once notices the outrageously high prices, the lack of service, the general lack of understanding of retailing practices. The coming of a chain store unit almost at once changes the situation. Greeted at first with much hostility and dire predictions of failure, the independent store keeper who relied on his credit granting and other service features finds his trade deserting him for his new and deadly rival. The result is reformation or failure.

Antichain Legislation.—In a number of states, the enemies of chain stores have attempted to have their legislatures pass laws which will either impose excessive or discriminatory taxes, or to limit the number of stores that may be operated by a single concern. A law, such as was passed in North Carolina, imposing a tax of \$50 on each chain store, is evidently confiscatory and, as such, unconstitutional. The New Mexican law imposing a tax of \$1 for every \$1,000 of gross volume hits chain and inde-

pendent alike. For a number of years, the Chain Store Grocers' Association was practically alone in seeing that antichain legislation was defeated; recently the Association has invited chains in other fields to cooperate in the endeavor to secure a fair field for the chain.

Antichain legislation is probably not a reflection of public opinion, but it secures the support of independent retailers, jobbers, and some of the uninformed. The "chain store menace" is flaunted before the public, and although only a statement of simple facts is required to dispel the feeble arguments brought against the chain, it requires an organized effort to accomplish this end. The simplest method of nullifying attempts to introduce antichain legislation is to educate the public. It is only a question of time before this will be accomplished automatically, but in the mean time the process may be hastened by institutional advertising and other forms of publicity.

CHAPTER V

THE STORE AND ITS LOCATION

Correct location of chain store units is fundamental, no matter whether a merchant is locating his second or two-hundredth store. While the factors which will govern this selection may and will differ for various types of chains, in each case certain principles will have to be observed; otherwise the obstacles for successful operation may prove too great. The emphasis on proper selection of sites has increased steadily, due not only to a more general recognition of its importance, but also to the keen competition of the various chains for the so-called 100 per cent locations in the 100 per cent districts. While recent years have been marked by a steady expansion of chain grocery and drug systems into the smaller towns and villages, the center of attraction remains the city itself.

In the past, the choice of a location was often due to the acumen of members of the chain organization rather than to any scientific method of selection. For example, the J. C. Penney Company formerly would go to the very edge of the business district if the downtown streets seemed too expensive. While corner locations are still regarded as out of the question for a chain which caters to a middle-class trade, its stores are now usually located in the center of the leading street in a 100 per cent district. Provided that the store can be situated within a short distance of a 100 per cent location occupied by a leading department store or chain, the company is satisfied that it will be able to draw the requisite trade. Incidentally, the company, like many of the larger chains, now has its own real-estate department.

A separate realty department is not feasible for chains which are not large enough to organize this as a specialized activity. Where such a department is maintained, it not only picks the sites, but takes care of the buildings, makes improvements, renews leases—in a word, assumes entire charge of the company's property.

Who Should Select the Site?—Ordinarily speaking, the choice of store sites is a highly specialized task. It should not be delegated to anyone without the necessary qualifications. Many chains use their own personnel to make investigations, especially if their operations are mainly local. For example, W. G. Marshall, who has built a chain of 37 drug stores in and around Cleveland, Ohio, has been able to pick out his own locations successfully because he is thoroughly acquainted with the local conditions and the characters of the various retail districts.

Other chains use the services of realty concerns which make a specialty of finding chain store sites. This is ordinarily the case where a chain operates over a wide territory with the conditions of which the officials of the chain cannot be personally familiar. In such cases, however, all situations offered are checked carefully by the company.

There has been much controversy as to how efficient the chain store location experts actually are. It has been claimed, for example, that only a local real-estate man is able to appraise the value of a piece of property at its true worth. There is no doubt that the chain store often pays more than previous occupants have paid for rent, but there is also no doubt that the chain store is able to pay more for a certain location because it obtains a greater volume of sales than the previous independent occupant. Ordinarily, when a chain store expert, whether in the service of the company or of a realty concern, has analyzed a particular location, he *knows* whether that location is going to prove satisfactory, and the company is willing to risk its money on the accuracy of his judgment.

Among the chains selecting their locations by their own efforts is the Foltz Grocery and Bakery Company of Cincinnati, Ohio, operating 114 stores. Whenever a new location comes up for discussion, it is first turned over to the district manager, who reports on the population, the other chain stores already operating in that section, and the number of clerks employed in these competing chain stores. If the district manager reports unfavorably, then the proposition is dropped immediately. Should he advise favorably, then the president of the chain takes up the question himself and makes further investigation. About 20

stores have actually been started which did not prove profitable, but these were moved to other locations as soon as possible.

The Safeway Stores Company, Inc., with 300 stores in and around Los Angeles, also selects its own sites, the officials of the company acting as scouts. The J. C. Penney Company, on the other hand, employs eight scouts to find locations for new stores. The United Cigar Stores Company has obtained extremely accurate results through the use of scouts for picking sites. So highly developed are their methods of forecasting that they have often given pre-estimates of the first six months' business, which came within \$200 of actual sales.

Both chain store systems and realty companies obtain a great many data as to location possibilities through local chambers of commerce, and even through detective agencies, which furnish reports upon any particular site under consideration.

General Considerations.—There are certain general factors which have vital bearing on the type of location which a given chain will find profitable. The most important of these are the type of product to be sold, the nature of the market to which this product is suited, and the advertising and merchandising policy of the chain.

Products have been classified in several different ways, but the fundamental division can be made between those products which the customer will buy at the nearest retail outlet and those for which he will shop. In the category of the so-called necessity goods come groceries, drugs, candy, and tobacco products. Under the shopping classification come dry goods and apparel over a certain price class. The chains which retail necessity goods may cultivate a particular section intensively, with stores to cover each focus of retail activity. They have virtually the entire community for their prospective market, and they sell products which are rapidly consumed and for which the demand is practically constant.

A department store, on the other hand, requires a large population on which to draw. Here the varied character of the merchandise is such as to require location in the 100 per cent district where the shopping traffic is heaviest.

The nature of the market in which the store is to be located must correspond to the product. Thus the J. C. Penney Com-

pany specializes in merchandise for medium-sized towns, and rarely likes to locate in cities with over 25,000 population. When it does break this rule, the location is likely to be in a poorer section, where conditions approximate those of the smaller community. Some grocery chains have found it less profitable to open stores in foreign communities, because the foreigners like to trade with their own merchants.

A vigorous merchandising and advertising policy may, in some cases, make up for deficiencies in location, but this is the exception rather than the rule. The circulation of traffic may be compared to a river which has overflowed its banks. The main current flows steadily on, while in the backwaters there is little motion or perhaps merely an eddy. The merchant who succeeds in locating on the main artery of commerce, and whose merchandizing plan is otherwise suitable, stands far more chance of being successful than his rival around the corner.

Cigar and drug stores in particular endeavor to locate near some point where traffic is heavy. The United Cigar Stores once made it a rule that all their stores should be on corners. A drug store can take an inside location, however, provided the traffic does not have to go out of its way to reach its doors.

A writer in the *Chain Store Age* (October, 1925) describing the reasons why one chain failed, gave as a primary cause the policy followed in locating new stores. The promoter believed that the sole necessity was to find vacant a storeroom in a populous and growing neighborhood. As the stores handled only high-class merchandise, and as more than a quarter of the stores were in foreign localities where bargains only were considered and where the stores were constantly undersold by competitors, the chain failed to make profits.

Another chain, operating five-and-ten-cent stores, had a location in the downtown business district, but on the edge of a cheap residential quarter. It was decided that it was impossible to appeal to both types of market, and as a result the store has been successful in its efforts to build up a trade among the business and financial workers, by emphasizing products which appeal to men.

The City Location.—The 100 per cent retail district comprises the two or perhaps three blocks of greatest retail activity.

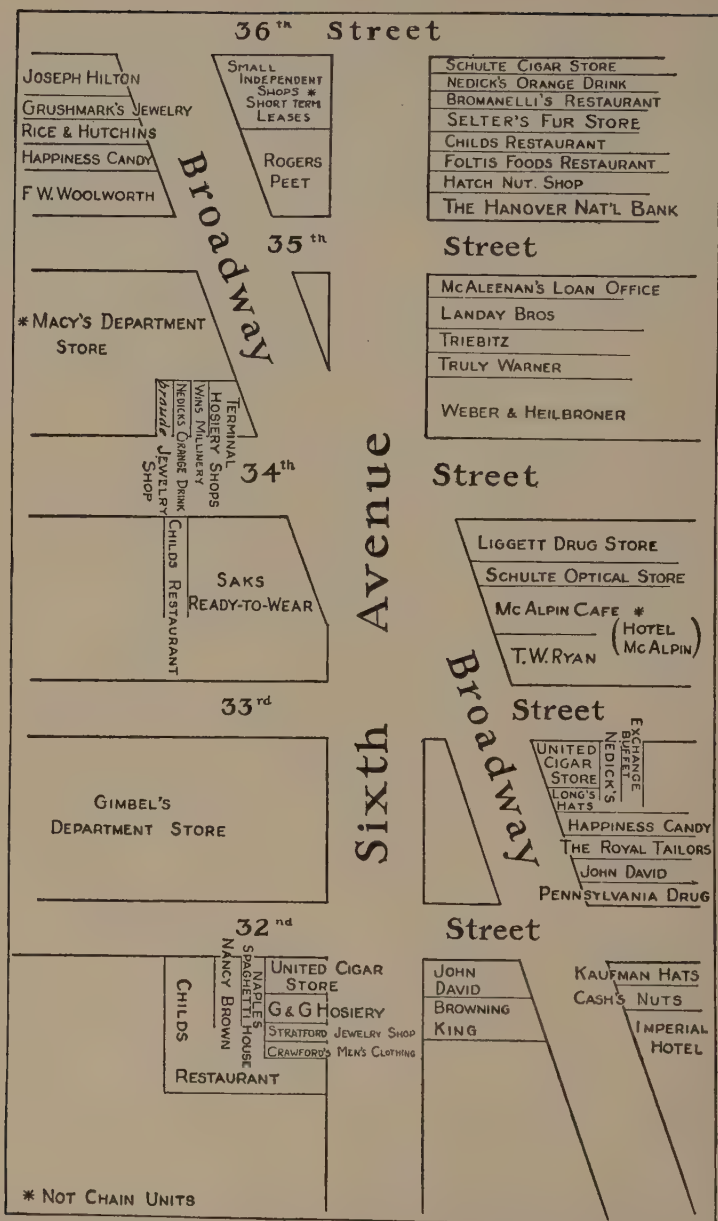


FIG. 4.—The chain store on Herald Square, New York. (From the Chain Store. By Leonard G. Yoder.)

Through this concentrated area flows a constant stream of potential customers. According to Joseph P. Day, Inc., well-known real estate firm in New York City, the demand for 100 per cent locations has become constantly greater. Rentals have reached new high points because of the keen bidding of chain store concerns against each other. Figure 4 shows how chain units have taken possession of one district in New York City.

It is becoming increasingly difficult to obtain leases in these central districts at figures which will allow satisfactory profits. This is especially true in cities where there are geographical limitations to retail districts, such as in Pittsburgh and Chicago. The result in the latter city is that there are virtually 13 outlying sections, each forming a city in itself.

It is a well-known fact that cities move. The best example of this is the successive progression of the retail district in New York City from the teens to the thirties, and latterly the formation of a new district in the fifties. Business has gone out Euclid Avenue in Cleveland, Woodward Avenue in Detroit, and East Avenue in Rochester. It is going north in Buffalo.

This is not true of the central business district alone. Outlying sections are even more likely to change in character. A high-class residential district of today may be utterly changed ten years from now. It is a gradual but constant process, attributable to social, economic, racial, and other factors. The community must be studied not only as it is today, but as it is going to be tomorrow.

Since population generally follows the higher elevation, the residential section of a city moves gradually uphill. If office buildings predominate in a given locality, stores selling goods with a shopping appeal will be found elsewhere. In rare cases, such as in Baltimore and Hartford, two separate sections will be found, one for men and one for women. There is a constantly increasing attention paid to smaller urban communities, particularly those adjoining large cities. The decreased rent and the increasing traffic congestion in cities often make these desirable as locations.

Factors to Investigate.—There are four factors at least to be studied before accepting any city as a desirable location:

1. *Population.*—Every chain should know approximately how large a community will be required to support one of its stores.

The Woolworth concern, for example, has a fixed rule that no store shall be opened unless there are at least 8,000 inhabitants, although it may take a lease in a growing town in preparation for the day when the requisite number of inhabitants will be reached.

In addition to the actual population, the drawing population must often be considered. Massachusetts, for example, has many large cities located in close proximity to each other. In Vermont and the greater part of New York, shopping centers are fairly widely separated. This is an important item for chains dealing in shopping goods. For grocery stores, it is generally calculated that five blocks or a quarter mile is the limit to which customers will carry their purchases home. Normally also customers prefer to carry packages down hill rather than up. Again a main traffic boulevard will often cut off all the market possibilities on the other side on account of difficulty in crossing.

The rate of increase in population is another factor to be considered. Thus, the Woolworth Company has a policy of opening a new store in a city where there is already a Woolworth store as soon as conditions seem to warrant.

2. *Type and Habits of Population.*—It is usually important to ascertain what industries are located in the town, or, in an agricultural community, what crops are principally produced. For example, the centralization of insurance companies in Hartford, Conn., gives a preponderance of clerical workers, and the government employees in Washington create a similar situation there. Other cities are particularly good for men's stores, notably Youngstown, Ohio, with its steel workers; and Akron, with its rubber workers. Other cities offer excellent opportunities for stores catering particularly to women, such as the textile towns, where female workers predominate.

3. *Transportation Conditions.*—Accessibility to other cities and to the suburbs is often an important subject for investigation. Traffic flow to and from railroad stations must be discounted, as such traffic does not normally purchase. Road conditions and parking facilities are often of paramount importance in these days when the automobile is the chief method of locomotion for all classes of people.

4. *Rental Conditions.*—It is still an important fact to consider that rental conditions in different cities are not alike. Given two cities of equal market potentialities, one may offer substantially lower rental rates for an equally valuable location.

The J. C. Penney Company, has adopted a policy of entering many small rural districts as well as medium-sized towns.¹ The following factors are taken into consideration by Glen G. White, manager of the real-estate department, when picking out a community.

1. Population.
2. Rate of growth of town.
3. Drawing power from adjoining districts.
4. Dominating nationality.
5. Churches.
6. Schools and colleges.
7. Altitude.
8. Temperature.
9. Industries.
10. Industrial employes.
11. Approximate payroll of all industries.
12. If an agricultural community, the important crops.
13. Banks.
14. Yearly deposits.
15. Railroads.
16. Proximity to large towns or cities.
17. Shopping habits of population as to adjoining larger towns and cities.
18. Department stores.
19. Towns tributary to town.
20. Ready-to-wear stores.
21. Exclusive shoe stores.
22. Exclusive men's clothing and furnishing stores.
23. How many home owners.
24. Average monthly rental of six- to eight-room modern house.
25. Other chain stores in town.

The Neighborhood Shopping District.—Ten years ago, chain stores were generally anchored firmly in the central shopping districts. The recent trend, as was inevitable with growing competition and increasing rents, has been towards expansion into the so-called neighborhood districts. This tendency has

¹ *Chain Store Age*, July, 1925.

been furthered by the growing reluctance of the people living in the suburbs and small towns contiguous to larger cities to encounter the traffic congestion in the central shopping districts. While they will still make special trips to the large department stores, the general habit is to purchase as much as possible near home. As far as groceries and drugs are concerned, the tremendous amount of national advertising done for many branded articles has made them known the country over, and these can usually be obtained from the neighborhood chain store as cheaply as from the city unit. That is, if the customer can buy a certain article around the corner, at the same price that she would pay in the city she is not likely to make the trip into town unless there are other considerations.

Certain chains are keenly interested in watching the growth of new shopping foci. They will, in fact, take a location there even before the population warrants it, on the theory that pioneering in this case will pay them well. The people of the neighborhood will get in the habit of patronizing their chain, and although other chain units may come later, they will have the advantage of priority.

The following factors are considered by the Safeway Stores Company, Inc., of Los Angeles:¹

1. Is the area now partly served by existing Safeway stores; if so, is there sufficient volume for another?
2. If district is not served by Safeway store, are there sufficient people in our logical trading area to support a store?
3. Are there sufficient people to support a drug store (if there is none there)? Otherwise, how close is our prospective location to a drug store; and what is the status of the druggist's business?
4. Is the location on a through street?
5. Is there ample parking space?
6. Is it on the side of homeward-bound traffic?
7. Is it accessible to children?
8. What is the future of the district?
9. Are there any undesirable features nearby?

The Rural Location.—It has often been contended that the town of 5,000 and under is not well fitted to chain store operation, because:

¹ WRIGHT, H. S., *Chain Store Age*, August, 1925.

1. Agricultural communities are likely to be affected by the seasonal nature of the farmers' income.

2. Such items as eggs and butter will have to be taken in barter.

3. Villages demand credit accommodation.

4. Local prejudice will prevent successful operation.

To all these objections there are satisfactory answers. In the first place, the farmer usually has cash to pay for necessities. Even though his income is obtained during one season, he saves enough to carry him over the lean period. Normally he is keenly alive to the advantages he obtains in the matter of price through dealing with the chain.

The matter of barter is more serious. Failure to take such items as eggs and butter in exchange for other groceries might result in serious loss of business. Some chains put the responsibility for barter transactions on the local manager. He can do as much business of this kind as he likes provided it does not show a loss. Other chains allow the district manager to take care of the problem. Where a great deal of one commodity is offered, he sometimes has the delivery truck collect it from the various stores and sells it direct to a wholesaler.

Contrary to general opinion, the question of credit accommodation in the grocery and dry-goods line has never offered any serious problem. Some years ago, the local merchant was in the habit of extending credit to the major part of the community, which, in turn, was ethically bound to trade with him. The advent of a chain store in practically every case has resulted in a great loss of trade to the local store.

Local prejudice against the chain is also largely a fiction. It emanates chiefly from local merchants. The majority of the population regard the coming of a chain store as a benefit, since it results almost automatically in reduced prices and the elimination of long profits.¹

Choosing the Site.—Assuming that a chain has decided upon a particular city as being a logical possibility for successful operation of one of its units, the next step is to determine where this unit should be located in this city. Location, of course, is more important in the larger communities. The scientific

¹ In connection with the subject of grocery chains in rural districts, see article by Lloyd S. Graham in *Chain Store Age*, July, 1927.



FIG. 5.—A typical analysis of the shopping district of a medium-sized city, as prepared by one of the "scouts" of the J. C. Penney Co. The city in question is Norwich, Conn. Note how the scout appraises the 100 per cent section of Main Street—from A to B and from A to C on the south side of the street, the north side rating only 95 per cent in his judgment. The locations heavily outlined are those which are available. (*Chain Store Age*, July, 1925.)

method of ascertaining the correct location is to make a thorough study of available sites with reference to the traffic passing by them, their location in relation to the competing stores, and to their other neighbors. Figure 5 illustrates the report made by one of the J. C. Penney scouts on the shopping district of Norwich, Conn. From such a map as this, home officials can obtain a very good idea of the value of various sites. Even though a man is familiar with the local layout, he will find it helpful to construct such a map as this and make his assessments as to the value of various sites.

In considering prospective sites, the J. C. Penney Company pays most attention to the following factors:

1. Character of street.
2. Proximity to other chains.
3. Proximity to department stores.
4. Proximity to banks, public buildings, theaters.
5. Size of street floor.
6. Type and construction of building.
7. Length of term available.
8. Available possession.
9. Rental.
10. Renewal possibilities.

Each chain, of course, will have special factors to consider, relating perhaps to the side of the street, the location of competitors, the composition of the district, and accessibility. Probably the most important factor in the majority of cases is the traffic, its volume, direction, and purpose, and other details connected with it.

Analyzing the Traffic.—The value of analyzing the traffic passing by a potential chain store site lies in the fact that the different chains have carefully worked out statistics on which they can base judgments. They can compare conditions existing in the old stores. They know the percentage of people passing a given point who will enter a store such as theirs. For example, the United Cigar Stores Company has a fairly definite idea, after it has analyzed the traffic, as to not only how many men will enter its store, but also how many will buy, and the average sale to each one. Knowing this, it is comparatively easy to figure what an individual store will earn, or, better, the volume of sales

each store will make. In each case, allowance is made for the type of the locality and the traffic.

Undoubtedly, clocking is the most spectacular method in choosing the chain store sites, that is, determining how many people pass a given point, to what type they belong, whether they carry bundles, their sex, their age, or any other information which may be desired. From one to four men are required to gather this information, and it may be gathered for several days and even weeks. Some chains will not establish stores unless it is found that at least 15,000 people a day pass the point where it is proposed to establish the store.

Figure 6 shows the questionnaire which the investigator for a bakery chain had to fill in. It is to be supposed that some definite site was already in view when the investigator was sent out to cover location. Here the hourly traffic was gaged, divided by sexes. It was also important to ascertain how many people carried bundles.

Figure 7 illustrates the scout report sent in to the Kresge real estate department showing the clocking of traffic. This company normally takes counts between 10:30 and 12:00 in the morning, and between 2:30 and 4:30 in the afternoon, selecting various periods of three minutes each for actual counting. Clocking is regarded as the most important part of the Kresge method of selecting sites. Other chains regard clocking as comparatively unimportant, relying more on the character of the traffic and careful observation of the business done by neighboring stores.

The investigators for many chains have to go much farther in analyzing the traffic. They take into consideration the direction of the traffic, both in general and at special times of the day. There are definite currents of traffic which it is possible to set down statistically. In some cases, the number of people entering other stores in the same line of business is noted, as well as the number of persons leaving that store with bundles. In suburban districts, it is frequently found valuable to analyze the number of persons returning home from the city with packages, indicating that purchasing is done elsewhere. In many cases, this may prove an inducement to the chain store to enter that locality,

accepting this foreign purchasing as an index that prices in the district are too high.

15TH ST

A B

C D 16TH ST

E F

G H

I J 17TH ST

K L

Broadway

City *Watson Ill* ROAD
 Date *Aug 6 1925* Day *Thursday*
 Weather *Clear & hot* P 1920-13552
 CUSTOMERS *Exp 1910-11456*

CLERKS

	A.M.	P.M.	P.M.	P.M.	P.M.	P.M.
ENW 9	26	35	52	30		

NE S

W

	A.M.	P.M.	P.M.	P.M.	TOTAL	Other Counts	A.M.	P.M.	P.M.	P.M.	TOTAL
A	6	6	4	16							
B	7	8	8	23							
C	6	10	8	24							
D	16	9	9	34							
E	6	7	5	18							
F	30	20	17	67							
G	10	15	5	30							
H	11	22	20	53							
I											
J	10	17	15	42							
K	2	7	8	17							
L	2	6	6	18							

City
 Date
 Weather
 CLERKS
 CUSTOMERS

	A.M.	P.M.	P.M.	P.M.	P.M.	P.M.
A						
B						
C						
D						
E						
F						
G						
H						
I						
J						
K						
L						

FIG. 7.—Scout report sent in to Kresge real estate department showing checking of traffic. (Chain Store Age, Sept., 1925.)

It is quite possible that 15,000 people might pass a given location daily, yet that location prove useless simply because the people had no intention of purchasing. For example, traffic to

and from a railroad station past a place of business is not regarded as valuable by many chains. The people are always in a hurry, and while they may stop to purchase candy or tobacco, they would hardly ever tarry long enough to patronize a department store.

In opening new stores, it is usually important to know the volume of the traffic. Department stores, women's ready-to-wear stores, specialty shops, and some shoe stores can sometimes make up traffic deficiencies by their own efforts; but this means money expended, and it is always a debatable question whether increased rents and more traffic are not better than lower rents and increased advertising with decreased profits. A mistake in location may prove costly, because often stores are taken on long-term leases. A chain may find it profitable in some cases to take a location, formerly devoted exclusively to retailing tobacco products, and make it a candy store devoted exclusively to the retailing of confectionery. The Nedick stores, devoted mainly to the sale of an orange drink, are often located where at one time small candy or bootblack stands were situated.

Neighbors and Competitors.—Every location will have a certain type of purchaser, and this type of purchaser varies at different times of the day. From this it is possible to draw rather definite conclusions. It is evident that some locations are particularly fitted to some types of stores. For example, the five-and-ten-cent store does 90 per cent of its business with women. Its usual policy is to locate as near as possible to a department store, thus getting the benefit of the department store's great drawing power. If a department store is not available, some other magnet which draws people, such as a theater or a drug store, will do, although the latter are not considered nearly so effective. Since a five-and-ten-cent store in itself is not important enough to draw people to it, it must rely on putting itself in the way of its potential patrons. It will not be a success in the office district, where the great majority of pedestrians are men.

Several chain officials recommend a careful study of nearby department stores. For example, a department store with window displays which normally draw attention is an excellent neighbor for a chain store. It is also desirable to ascertain the type of merchandise sold by the department store.

For the neighborhood grocery store, a nearby drug store is a good drawing card. One chain in particular tries to get a drug-gist to take the corner location when it goes into a new district, finding that this is a material aid in obtaining sales volume. It also believes that if a district supports a good drug store, then it will also be a profitable site for a chain grocery store.

Banks are normally regarded as bad neighbors for chain units in neighborhood or suburban locations. They often occupy corner sites, and their habit of closing early does not make them particularly valuable as traffic magnets. The spread of branch banking in certain sections of the country has made the bank neighbor a problem for grocery chains.

Some chains pay little attention to competitors already located in the area, believing that the district itself is the main factor to be considered. If competitors are not already there, they will undoubtedly come, in which case the problem is one of merchandising and not of location.

One grocery chain studies the number of clerks employed by other chain groceries in the section. A one-man chain store is not regarded as a good index of a section's possibilities. It should have two or even three clerks.

The five-and-ten-cent-store chain must also observe carefully its competitors, since it must compete with them in frontage, merchandise, and appearance. Several units of competing chains may be located a few doors from each other, yet each may do a satisfactory business. Often locating near another chain unit helps both unless the district is obviously saturated.

The Street.—It has long been known that sides of the street differ in the amount and the nature of business done. Ordinarily, the shady side of the street is given over to women's trade, and rentals are 25 per cent higher. Department stores are an example of this. There are exceptions in Boston on Tremont Street, where the Common makes it impossible to seek the shady side, and in Rochester, N. Y., where the sunny side was originally chosen and no change has since been made.

In similar fashion, one side of the street may be good for candy stores and fatal to shoe stores. Going even farther, one side of the street may be good for expensive shoes and bad for cheap shoes, and *vice versa*. A cigar store which was a failure

on one side of the street might be successful on the other side; and this can be predetermined to a great extent by analyzing the traffic.

In the five-cent to one-dollar field it is generally considered essential to be located on the best side of the street, and as near a department store as possible. While the shady side of the street is usually chosen, this makes no difference provided the best stores are located on the chosen side. It is very rare to find both sides of the street equally good. The exception to this is the fast-traffic street where stores on either side do not conflict with each other. Very often, however, on such traffic boulevards, passers-by have no intention of stopping and parking. They use the boulevards merely as thoroughfares. Furthermore, these through streets with heavy traffic are normally very wide, and people cannot be induced to cross them. When grocery stores do choose locations on traffic boulevards, they want the homeward-bound side if possible, that is, the right-hand side leaving town. A location on a through street intersecting the boulevard and just around the corner from it is often desirable for a grocery store, since there is good traffic passing by and available parking space.

Individual Policies.—It is an interesting psychological fact that customers dislike walking upstairs to make a purchase. Women, for example, will almost always go down to the basement rather than up to the second floor of a department store. The United Cigar Stores Company capitalized this trait early in its history. It avoided raising the level of the store either a step above or below the street, and made it exactly even. The value of this policy has since been recognized by the majority of retailers.

In addition, the store entrance is usually set at an angle, so that traffic on either street can readily see into the interior of the store. In this way, the corner location is made to yield full value, while this arrangement also prevents congestion and gives a pleasing impression.

George J. Whelan, founder of the United Cigar Stores, made good use of per-capita-consumption figures of cities, when locating his initial stores. He found the following somewhat surprising results:

San Francisco.....	\$4.06	Rochester, N. Y.....	\$0.90
Atlantic City.....	2.55	Chicago.....	0.63
New York.....	1.74	Spokane.....	0.60
St. Louis.....	1.21	Milwaukee.....	0.22

Such figures are readily ascertainable by the ordinary methods of commercial research. By a glance at the above table, it is evident that a great many more people would have to pass a United Cigar Stores location in Milwaukee than in San Francisco before the same volume of sales could be obtained.

Such a list as the above is of only temporary value and must not be relied on too far. Buying and consuming habits are constantly changing. New styles, new people, new industries, all have a bearing. Therefore, such figures must be constantly kept up to date. An increase in per capita consumption would mean more stores, while a decrease might entail a policy of curtailment or of artificial stimulation of consumption.

An interesting development in regard to location is the policy of certain chains in opening stores on the Atlantic City boardwalk for the advertising effect obtained therefrom. Shrinkages in profits are more than offset by the publicity.

Quality Locations.—For many years—in fact, until quite recently—chain stores were regarded as merchandising ventures exclusively devoted to the interests of the poorer classes. To be seen going in or out of a chain store was avoided. Merchants on the better streets frowned upon the advent of the chain store. When Childs bought their location on Fifth Avenue in New York City, there was great nodding of heads and dire predictions of failure. But the Childs organization went ahead and erected a building, letting all but the ground floor. There was room for only 29 tables, 116 seats in all. But the profit on each of these 116 chairs was carefully reckoned within a cent or two on daily turnover. These statistics had been secured by applying the results of long experience to the traffic passing the door.

When the Woolworth organization decided on Fifth Avenue for its thousandth store, Mr. Woolworth went so far as to become a member of the Fifth Avenue Association. The bright-red signs were kept, but the window dressing was carried only half way up.

It is reported that the location makes no difference in the number of mousetraps sold, and the luncheon counter is just as busy at noon as it is anywhere else.

It is said the United Cigar Stores pays \$27,000 a year rent for one of its Fifth Avenue locations. The company's architect was told to design what would be the most beautiful cigar store in the country. The exterior is in black and gold marble with the name of the company in specially designed letters of bronze and gilt. The familiar red signs are made narrower and less conspicuous. The bases of the counters and the showcases are black and gold marble. The showcase frames and all decorations are of bronze. The windows are dressed with as much care as are those of a jewelry store.

Planning for Future Expansion.—In the earlier stages of chain store development, many stores were located in hit-or-miss fashion. Some of them succeeded and some failed. In general, however, the larger chains have always followed a standard policy in choosing locations and the smaller chains can serve themselves best by following their example. While locations are constantly becoming available through growth in population, the total supply is scarcer and competition keener.

Chains normally start in large cities, spread in that city, and then jump to another large city. This was the manner in which the Great Atlantic & Pacific Tea Company started, as well as the United Cigar Stores. Later they return and comb the smaller communities. Woolworth began in a small town and then spread to larger communities. Penney follows a policy of clinging preferably to the smaller communities, and in this way effects many economies, at the same time having a monopoly of the chain-department-store field in these localities.

In cities, the most likely locations are taken first. Expansion then extends to the suburbs, and finally to the nearby smaller towns which fall within the warehouse radius. In obtaining data on suburban locations, a favorite method is to watch the delivery route of some independent competitor and, if it is judged that the volume of trade is heavy enough, a store is opened. Some grocery chains have made surprising successes in quality suburban locations, seemingly well filled with flourishing businesses.

The first rule to observe in expanding a chain system is to see that new units fall within a convenient delivery and supervisory radius. It is not normally desirable to jump a long way from the last store on the delivery route. This isolated and distant store will be difficult to take care of. Some chain systems, desirous of expanding rapidly into a certain section, will buy a small chain already operating there, and in this way add a new section at one time.

A chain should plan its expansion program several years ahead, not only as regards the number of units to be opened, but also as to their exact sites. There are several practical policies which normally should be followed. If delivery to member stores is made by freight, then, by keeping to one railroad system, delivery is facilitated. If delivery is made by automobile truck, then stores should be planned to fit in with a regular routing schedule.

Except in rare cases, a chain should place its stores in communities which resemble each other. This advice is, of course, relative. A grocery store will fit in a wider range of localities than would a dry goods store, because in the latter case the quality of stock is more differentiated according to the community served. Thus the J. C. Penney Company carefully chooses its sites with a view to similarity in the nature of the market.

Conclusions.—One of the reasons for chain store success undoubtedly is scientific locating of member stores. No retailer can afford to pass over the opportunity presented him to capitalize on his location. The fact that the chains have been able to go in under the local retailers' noses and capture the best sites helps to show how badly new principles of retailing were needed in the community.

The congested districts, because of their compactness, as a rule, still offer the best opportunities. The product, however, and the chain policy may determine otherwise. It may be desirable to obtain the place which the most people pass every day, or the company may be willing to seek less public locations at a lower rent because of other facilities for attracting trade. Either extreme is unsafe. A great volume of sales will carry a large overhead, but without this large volume of sales the large overhead would be a constant drag. Again, low rent in a back

street might be uneconomical because of the greater opportunities for that store in a better location.

Every member of the chain organization should constantly be on the lookout for new locations. In many cases a desirable location means dollars to the chain which is first to come on the scene.

CHAPTER VI

THE STORE ITSELF

The previous chapter has discussed the various problems which must be considered in choosing the site for the store. In this chapter the various questions concerned with the store units, their establishment, appearance, and care will be discussed. The keynote of this entire problem is standardization. The store front, the layout, the equipment, and even the procedure in each case is standardized.

With the increasing number of chains with 25 units and over the realty department is becoming more important, particularly where chains specialize in city locations. Furthermore, with the increasing rental value of 100 per cent sites, expert attention is often needed to take care of unused space.

The success of any chain organization, as of any retail establishment, is usually directly affected by the care taken of details of size, equipment, and arrangement of stock. In a variety of ways, the chain succeeds in eliminating waste, and eliminated waste means increased profits. It is sometimes a temptation for the small chain to avoid standardized equipment at the beginning, but this is normally a mistake. Plans should be made from the start for a standard layout for the various stores.

The Real-estate Department.—Even though a chain may not regard a real-estate department as an essential feature of its organization, all questions of real estate should be handled by one or more individuals. The head of a retail chain is a specialist on merchandising. While it is true that the head of the company frequently supervises the real-estate department and keeps it under his personal control, he does so, not as an expert in real estate, but as the one who coordinates the two separate activities.

Frequently the personnel of the realty department is largely made up of legally trained men. In one department five of the members of the realty department are attorneys. These

REAL ESTATE REPORT

City.....State.....

Retail Zone Boundaries, by street.....

.....

Traffic Points.....

Principal Retail Streets

1.....from.....to.....side.....front ft. rate.....

Class of establishments.....

General Character Foot Traffic.....

2.....from.....to.....side.....front ft. rate.....

Class of establishments.....

General Character Foot Traffic.....

3.....from.....to.....side.....front ft. rate.....

Class of establishments.....

General Character Foot Traffic.....

IN OUR JUDGMENT BEST LOCATION FOR A RETAIL STORE FOR WOMEN'S

ARTICLES WOULD BE:

1.....from.....to.....side.....front ft. rate.....

2.....from.....to.....side.....front ft. rate.....

IN OUR JUDGMENT BEST LOCATION FOR A RETAIL STORE FOR MEN'S

ARTICLES WOULD BE:

1.....from.....to.....side.....front ft. rate.....

2.....from.....to.....side.....front ft. rate.....

IN OUR JUDGMENT BEST LOCATION FOR A RETAIL STORE FOR A GEN-

ERAL LINE WOULD BE:

1.....from.....to.....side.....front ft. rate.....

2.....from.....to.....side.....front ft. rate.....

Best local broker or correspondent.....

REMARKS.....

.....

.....

	Suitable for:	{ Men's line Women's line General line
BUILDING No.....		
Available.....		
between.....and.....side		
.....story.....Erected.....		
Constructed of.....		
Condition.....		
Other tenants.....		
.....		
Neighbors: Right.....		
Left.....		
Opposite.....		
Others.....		
Sidewalks, kind.....	Width.....	
Street, kind.....	Width.....	Lighting.....
Water Supply.....	Toilets.....	
Heating.....		
Fire Protection.....		
Store self-contained or sub-divided?.....		
Partition walls.....		
Insurance rate on building.....	Fixtures.....	
Insurance rate on merchandise.....		
Restrictions, if any.....		
Building owned by.....		
Remarks.....		
.....		
.....		

	Suitable for:	{ Men's line
		{ Women's line
		{ General line
STORE		
..... Feet front.....	feet deep.	Ceilings..... feet
..... Feet wide in rear		
<i>Display Windows: Style</i>		
How many?.....		
Size..... Lighting.....		
Remarks.....		
Fixtures, if any		
.....		
Shelving.....		
How is store entrance?.....		
Level or steps from sidewalk.....		
Rear or shipping entrance.....		
Windows.....		
Lighting.....		
Heating.....		
Condition of floor..... Load.....		
Condition of side walls.....		
Condition of ceilings.....		
Remarks.....		
.....		

BASEMENT

..... Feet front..... feet deep. Ceilings..... feet

.....

Stairway.....

Elevator.....

Outside entrance.....

Fixtures.....

Shelving.....

Floor: Material.....

Condition.....

Drainage.....

Windows.....

Lighting.....

Condition of side walls.....

Condition of ceilings.....

Remarks.....

Sub-basement.....

.....

Any storage yard to building?.....

.....

Any storage shed outside?.....

.....

SECOND STORY

Suitable for:	{	Men's line
		Women's line
		General line

.....Feet front.....feet deep. Ceilings.....feet

Stairway to main floor: Width.....Height of steps.....

Number of steps.....Finish.....

Balustrade.....Landings.....

Front Display Windows.....

Other Windows.....

Any large central opening to main floor?.....

If not, the possibilities for such an opening.....

Partitions.....

Fixtures.....

Shelving.....

Condition of floor.....Load.....

Condition of side walls.....

Condition of ceilings.....

Lighting.....

Heating.....

Remarks.....

What are floors above?.....

men prepare leases and look after all questions of a legal nature that arise. One man does nothing but take care of the space not needed by the company.

The real-estate department normally investigates all prospective locations, either through its own scouts or through expert outside investigation. Some idea of the form of report and the information desirable to obtain can be had from the questionnaire illustrated on pages 81 to 85. It begins with a study of the community itself, then takes up the building and all details as to rental conditions, its past history, other tenants, neighbors, sidewalks, lighting, water supply, heating, fire protection, insurance rates, and restrictions. The next item is the store itself, its size, its display windows, the store entrance, the condition of the floor, walls, and ceilings, the basement, storage space, and second floor. No detail which may affect the success of the chain unit is omitted. In real-estate dealings as elsewhere, it is the spirit of efficiency, of standardized operations, which must make itself felt.

Building vs. Leasing.—The great majority of chain store units are rented, although this depends to some extent on the type of business and the size of the chain. Normally, a small chain would not care to tie up its capital in expensive property which, while it might enhance in value, might also deteriorate and ultimately prove an unsatisfactory location. If a chain is in the process of expansion, leases will prove much more satisfactory. Mistakes in location may be rectified with a minimum of expense.

When a chain store organization attains any size, there is no lack of locations offered for its inspection. One of the chain store leasing companies has an average of five new locations brought to its attention daily, and each one is carefully investigated. One grocery chain of 50 stores in the Middle West says:

Our stores have attained such a standing in the community that the developers of every new allotment in the city come to us and offer us a center lot for one of our stores. Other people continually offer us vacant storerooms for rent, or try to sell us lots. Right now we own about 18 lots on which we shall build within the next three to five years. In the meantime, we will rent several stores if we find the kind we want, in the right location, and if the rent is not too high. If the rent is too high, we wait for it to come down, or look around for a place to build.

Chains which have peculiar requirements, such as a standardized front to which neighboring stores may object, may find it necessary to purchase sites in certain locations. The chain grocery store ordinarily prefers a one-story building with a standardized front and standardized fixtures. Naturally choosing a medium-priced location, it rarely finds it profitable to build additional stories to rent to tenants. The rental from the upstairs portion will not justify the added investment.

The problem of a local chain is, in a way, quite different from that of the national chain. The local chain officials, at the start, are better acquainted with the character and buying habits of the market, as well as with real estate values there. They know by daily experience what the outside chain official has to learn from statistics and the reports of others. They are in a better position to capitalize on building and renting opportunities.

Rent Percentages.—How much rent can a chain store afford to pay? This is not always an easy question to answer, but it has been established by experts that there are certain percentages of gross receipts which should govern the rent paid by different types of businesses. That is, the value of a given store is calculated on a percentage basis of the gross volume fixed for the line of business which is to occupy that store.

Charles C. Nicholls, Jr., vice-president of D. A. Schulte, Inc., and one of the best-known location experts in the country some years ago compiled the following list of rental percentages.

Shoe stores.....	8
Department stores.....	3
Five and tens—non-advertising.....	5
Non-advertising specialty stores.....	8
Theaters and hotels.....	9
Drug stores, candy, fruit, etc.....	10
Grocery stores.....	10
Cigar stores.....	6 to 8
Barber shops, shoe-shining establishments, etc.....	12
Cloak and suit.....	6

In recent years, he has noticed certain changes. For example, the percentage some chains can pay today is not so high as it was formerly. This holds true chiefly of chains which handle nationally advertised and trade marked articles on which the margin

of profit is very small. Thus the percentage for rent has diminished principally for drug, cigar, high-class grocery, and department stores carrying shoes, hosiery, underwear, perfumes, toilet articles and other cases where the margin of profit is small.¹

To illustrate how percentages vary, the Foltz Grocery & Bakery Company, of Cincinnati, pays out between 1 to 2 per cent of its gross business in rent. Whenever the ratio between rental cost and gross business does not stay at its proper level, that is under 2 per cent, the question of moving the store comes up at once.

Any tabulation of figures on rental percentages must, of necessity, be only approximations, as circumstances will alter individual cases.

Certain chains prefer to secure sites by purchase, renting the superfluous space to other retailers. In some cases, this policy has resulted in the chain's obtaining its portion of the building free of charge, the overhead of the building being carried by rent derived from the other stores.

If a chain has superfluous space to let, it must be exceedingly careful as to its neighbor tenants. If the chain store selects its own neighbors, as it can often do by calling the attention of non-competing businesses to the excellent qualities of the location, it can insure the class of trade to which it wishes to appeal. That is, to its own pulling power is added the combined pulling power of all the other stores and, since the buying appeal of the chain store is largely to the eye and the pocketbook of the customer, any increase in purchasing traffic past the store is advantageous. It is well known that people who come to buy in one store often buy articles which they need in adjacent stores rather than go elsewhere.

Wherever the chain store really department decides to retain the property, it collects all rents and reports to the central organization. It also collects rent from the chain store itself.

Leasing Policies.—There is a great variety of practices as to taking leases, but, generally speaking, the trend has been from short-term to comparatively long-term leases. It has been the experience of many chains that when short-term leases have expired, the owners penalize them after they have developed the

¹ See article by Mr. Nicholls in *Chain Store Age*, June, 1925.

property and make it inexpedient to move. To avoid this situation, the S. S. Kresge Company has over 50 99-year leases, while it owns outright through its realty subsidiary 74 of its store properties.

Many chains, especially those with stores in localities the future of which is uncertain, keep to a 10-year leasing policy. The J. C. Penney Company seldom takes a lease for longer than 20 or less than 10 years, but in every case it wants a provision for future renewal included in the lease. Grocery chains going into new localities are likely to want a one-year lease with renewal privileges at the same rental. Owners are ordinarily willing to rent on these terms.

The so-called percentage lease, while not yet at all common, has certain features which commend it over the straight rental form. It has become a problem of serious importance for many chains taking long-term leases as to how much rent to pay, particularly when it is apparent competition is increasing and profits likely to diminish. The percentage form of lease merely means that the landlord shall be paid an agreed-upon percentage of the tenant's gross sales. There is often a minimum rental to protect the landlord against great loss. Landlords have generally objected to the percentage lease, preferring a straight rental. Some chains have also refused to consider the idea, hesitating to throw open their books for the landlord's inspection.

It seems that the percentage lease would be favorable to the chain in entering new localities, where competition is keen, or where a low margin of profit makes it imperative to control all expense items with great care. In any case, if the minimum clause in the lease is too high, it is not to the advantage of the tenant. A maximum clause should be inserted to offset the minimum clause working in favor of the landlord.

Furthermore, if a chain follows a policy of locating only in 100 per cent districts where sales can be accurately forecasted, and where the conditions of retail trade are fairly stable, a long lease on straight rental terms should prove favorable, because the ratio between rent and sales should show a decrease over the years under normal conditions. Again, if a chain operates many stores in one city, the loss from a straight rental policy on one unsuccessful store would be made up from extra profit on a

store which proved a better profit maker than had been at first expected.¹

The Size of the Store.—The size of the store is a relative matter, affected by the type of product sold, the buying habits of the community, the characteristics of the customers, and other factors. The normal rule is that the store should be just large enough to hold the stock, the clerks, and the customers while still presenting a neat and trim appearance. Every inch of space over these requirements is ordinarily waste. George J. Whelan, when he was president of the United Cigar Stores, was among the pioneers in fitting the size of the store to the selling requirements. As a result, he saved rent, saved space, saved cleaning expenses, and brought practically every article on sale in the store within reach of the clerk. The majority of the company's stores are one size, which makes it possible to use standard equipment in each store. That is, a space 14 by 30 has been found sufficient for counter, stock, clerk, and customer. When a location is good enough, the size requirement may be done away with.

The J. C. Penney Company has found that a store 35 by 120 feet is most satisfactory in the average town. As this is an odd size, it frequently finds it necessary to take a space of 25 by 100 feet. Irregularly shaped buildings are refused because they would require too extensive alteration of the standardized store front and fixtures. A five-and-ten-cent store normally desires to have 5,000 square feet or more, with a frontage of around 50 feet. One chain tries to get a store 41 by 50 feet inside measurement, which will then hold two of its regulation center squares and its regulation side counters, with space for aisles between. If the store is narrower, as often happens in smaller towns, the center squares and aisles are cut down.

The general trend in the grocery trade has been toward smaller and more compact stores. The Loblaw Groceries of Buffalo, however, open no store with less than 3,000 square feet of floor space, believing that an advantageous location in a shopping district will provide more business for the store than several stores in the outlying districts.

¹ For a more complete discussion of the pros and cons of percentage leases, see *Chain Store Age* for January 1926, and January, 1927.

Factors Affecting Size of Store.—The owner of a small chain, or the owner of one retail store who is planning to branch out and establish one or more other stores, may ask: "How shall I know how large to make my stores? And what shall I do with the rest of the space? You've shown me how valuable it is to have a location in the right place, but the only location I can get there is much too large for the business I expect to do." The chains which make a practice of owning their own realty make their own stores the regular size and rent the rest of the space to others. If the store is too large, get the owner to turn it into two stores and thereby make more rent.

There is one note of caution to be sounded here. A small chain cannot, as a rule, concentrate its stock in such tiny spaces as the larger chains which possess much quicker turnover and adequate means of supplying deficiencies in stock almost immediately. This is one of the problems of the small chain—to have ample stock yet achieve rapid turnover. Thus, a chain with two or three links may find it advisable to have slightly larger stores, since it must keep its warehouse in the stores themselves.

For example, there is a big variation in the size of chain grocery stores. Many of them are mere holes in the wall, using bins for shelves and representing a low investment. Other chains run larger stores and carry a much heavier stock. The grocery chain has had to meet the customer's desire for perishable goods. Not to carry vegetables and baked goods, means a positive loss of trade and sales in the other staple dry groceries. A meat counter, for example, attracts a great deal of trade. The Sam. Seelig Stores, of Los Angeles, Cal., rents space in its stores to butter, fruit, and vegetable concerns. The purpose has been to eliminate all perishable goods and cling to staple groceries, but the value of the presence of these other merchandising activities in the store is recognized, and the result has been a succession of chain concessions. Thus, a meat man may operate meat counters in several of these stores in one town.

A middle-western grocery chain has sublet a corner in some of its larger stores to meat markets. In three cases it built two stores side by side, so that a meat market could be secured next door. A grocery, a meat market, and a drug store are all that are needed to form a small community. In one section this

chain operated a grocery store next to a drug store. As a shrewd investment, the chain built a meat market next door and thereby secured enough additional rent to carry the overhead on its own store. It also increased trade, since people no longer had to go downtown.

There are other exceptions to the standard size for a store. Frequently stores in the heart of a large city must be larger than stores in the suburbs or than stores in smaller cities or towns. These are but the exceptions which prove the rule.

The Store Front.—Whenever a big chain secures a new site, arrangements are quickly made, either for erecting a new store, or for altering the old one. When ready to open, the store has the same appearance outside, as that of any other store in the chain. The standardization of the store front cuts down the expense of installation and is of great publicity value to the chain. There are exceptions, as always, to this rule. In Phoenix, Ariz., where a combination of Mission and Spanish types of architecture is extensively used, The Pay'n Takit Stores Company, a chain of 24 units, built one of its stores in a fine residential district to conform to the general type of architecture. This step met with the general approval of the public and sales in this one store showed a greater advance than those in any other store opened by the company.

A person can stand on the main street of almost any sizable city in the United States and, looking around, he can tell immediately what some of the stores within the radius of his vision are. For example, on the opposite corner he sees a store finished in red, with a shield beside the lettering. Clearly, this is a United Cigar Stores branch. Farther down the street is a much larger and broader red sign, with prominent gilt letters. Nearby, is a white store with script letters on the windows, gold letters on a white background over the store, and a pancake griddle in the window. Everyone would recognize these stores. But, in addition, there are any quantity of local chains which have their own color schemes, well recognized in the communities in which they operate. Red is a favorite color in grocery stores. The Piggly Wiggly stores, however, are painted blue, brown, and yellow with Piggly Wiggly in white letters on a blue background, and "All Over the World" printed beneath.

Not only is the color scheme of the exterior the same but the fronts and entrances wherever possible conform to the standard. In other words, every store in a chain is as nearly like the rest as possible.

Shallow fronts are ordinarily employed for groceries, candy, drugs, and other necessity products. Vestibule entrances are used for chains selling wearing apparel of any kind. Narrow vestibules should be avoided. If the level of the store is higher than that of the street sidewalk, an incline should be made rather than allow a step, however, small, to remain.

The Standardized Layout.—Every chain should use a standardized layout for its member stores. It saves expense in installation, it saves time in getting the store started, it allows transfer of manager and clerks without confusion because the stock is always in the same place, even the customer learns to look for certain goods in a certain place in no matter what one of the company's stores she may be in. One grocery chain, finding many of its locations too narrow for what it regards as the ideal size, has two standard layouts, one for wide and the other for narrow locations. In the small layout, the open space is concentrated in one place, which it finds advisable in such cases.

If it is necessary to have aisles, these should be wide enough to avoid overcrowding. Narrow aisles tend to decrease sales of goods on display at the point of congestion. In the Piggly Wiggly stores everything is arranged for convenience, with the heaviest goods nearest the exit. With the layout shown in Fig. 8, 185 customers an hour can be handled readily.

The executives of many chains study carefully the movement of customers in a store before deciding on the most efficient store layout. J. B. Levey, general sales manager of the United Shirt Shops, makes the following comment on points of sales vantage, writing in the *Haberdasher*:

It is an established fact that the movement of customers in a shop affects the sale of merchandise. The fixtures are placed accordingly. In entering a store, we usually adhere to the law of traffic regulations, and keep moving to the right. Points of sales vantage are usually about 10 to 12 feet on the right at the entrance of the store and on the right center, where you can probably sell more merchandise than in any other part. Another good point of sales vantage is the extreme rear

of the store, where people, having reached the turning point, naturally stop and look around. Personally, I believe the best selling spot in the store is where the incoming and outgoing traffics criss-cross. That

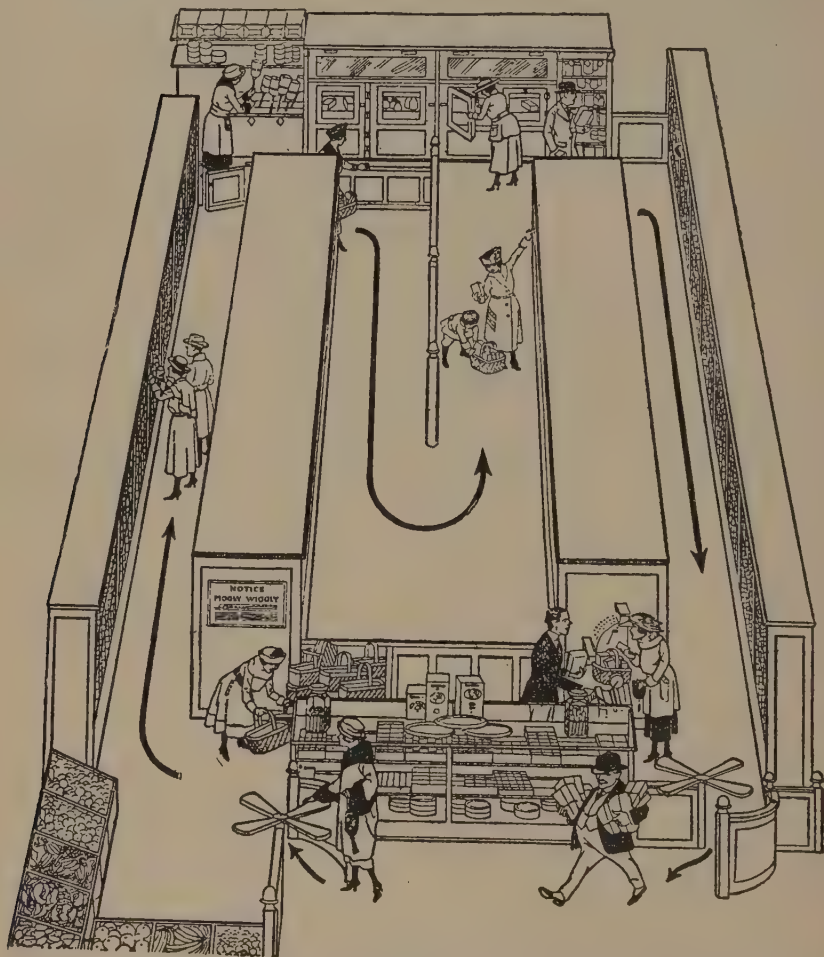


FIG. 8.—Standard design of each of 600 units in a chain of self-service grocery stores.

point is a few feet from the entrance, on the right-hand side. Usually there is some confusion when people are walking in and out all the time, and it causes them to move more slowly than ordinarily, thus affording another opportunity to glance around.

Stage management is an important factor in layout. Merely arranging the stock for the convenience of selling is not enough. The whole store must be planned with reference to the effect on the customer. The Fifth Avenue store of the F. W. Woolworth Company is one in which stage arrangement has been carried out with great success. Everything in the store has been arranged with an eye to effect. Ribbons, jewelry, and candy are at the front. The store contains 34 departments, two more than usual, the two extra ones being the light lunch and the soda fountain. Several departments are duplicated on the main floor and in the basement, on the theory that if customers pass an article on one floor, they will frequently purchase this article when seeing it again although in another place.

The same principle of stage management also holds true in the drug field, according to the sales manager of one chain store system. He says:

Give me a certain line of drugs and toilet preparations. I will stock up ten average drug stores of the old régime and then build ten competitive stores of the new type. The latter will inevitably get the business—get it in a big way—despite the fact that the other shops keep the same identical line. The reason lies in the method of display, in the spectacular stage dress of the store, and the hundred and one details of service supplied to these stores.

Equipment.—When the equipment required by the store is comparatively simple, as in the case of counters and shelving used by grocery stores, it is often found economical to have these manufactured by the chain itself. By keeping extra equipment on hand, new stores can be opened with a minimum of delay and expense, and in case of fire a new store can be opened almost immediately in a nearby location.

The Foltz Grocery and Bakery Company, of Cincinnati, finds that it can open a store three days after securing control of it by making its own shelving and keeping enough on hand for two stores. On the first day, the shelving and counters are installed, on the second day the stock is delivered, and on the third day the store opens for business. By having some split-shelving units, small differences in the size and shape of the store can be overcome satisfactorily.

In a five-and-ten-cent store where the shape of the individual store may differ considerably, it is mainly a problem of standardizing equipment units. It is possible to have counters of uniform size although their number may vary in the stores. The following standards are used by the Metropolitan Five- to Fifty-cent Stores, Inc.

Store fronts must always be red all over, because red means something to a public trained to the chain store idea.

Signs are made of wood or of metal, painted standard red with narrow black molding at the edges. On this is an accepted style of gilded letters, all of uniform height, except the "to" and Inc.," which are smaller.

Awnings are standard khaki color.

The effective show window should have a floor about 18 inches above the sidewalk level, and glass should never be more than 8 feet high. Any space above 8 feet is difficult to trim, and cannot be seen by observers. Windows more than 4 feet in depth require too much merchandise and labor to trim them.

Panel backs are coated with white enamel, to give life to display and to avoid conflicting with colors in displays.

Deep set-in doorways and island windows are avoided, on the theory that it should be made as easy as possible for people to enter the store.

Flooring for vestibule or entranceways is covered with small white hexagonal tiles, which are reasonable in cost, and easy to keep clean.

Ceilings of vestibules and show windows are painted white to aid lighting scheme.

A minimum width of 4 feet between counter tops meet fire and labor requirements.

The standard aisle or booth counter is 7 feet 8 inches wide by 20 feet long, with a 14-inch entrance, and an 18-inch working space in the center.

The narrow booth counter is 6 feet 3 inches by 20 feet long, with the same sized entrance and working space.

All counter tops are made flat as this suits the greatest number of department displays. Where a sloping top is required a false bottom may be used.

Counter and window-display fixtures are standard. For jewelry display there are special velvet-covered floor pieces and dividers, with special upright display stands for rings, necklaces, and bracelets.

A standard method of lighting and lighting fixtures has been worked out.

Stock bins have been standardized as to size, the storage space measuring 18 inches high, 4 feet long, and 2 feet deep. Double bins are made 4 feet wide with a center division formed by wire netting.

Other items of equipment and arrangement are standardized as fast as investigation proves their value to the store.

Each chain should find it possible to formulate a similar set of standards for use in its own stores.

Appearance.—The chain store should and can excel in general appearance. Not only the exterior, the interior, the equipment, and the stock but the lighting and the general effect of neatness can be standardized. The Piggly Wiggly stores have done away with window trims. The windows look directly into the store, thus making the goods in the store serve as window trim. The stores rely on their general appearance of attractiveness, as well as the novelty of their idea, to draw in customers. The United Cigar Stores, according to President Wise, notice an almost immediate influx of customers when it is possible to keep the doors open, and this is noticeable in congested districts especially. He also stresses the value of night lighting.

As a matter of fact, there is nothing which attracts the average customer more than cleanliness and neatness. If a chain had a monopoly on the trade in a district through its price appeal, cleanliness might matter less, but where there is such keen competition between chains every factor which lends attractiveness to the store is exceedingly important. In a grocery store, for example, where the majority of the customers are women, this factor looms up. Broken boxes, sawdust, scraps of paper on the floor, flies, all of these detract from the store appearance.

Clean windows are another point to stress. "Were your windows clean?" is one of the first questions asked by the Regal Shoe Company when one of its stores begins to fall off in sales. Clean paint is still another point. Fresh merchandise, no dust, orderly arrangement, each one of these factors has an incalculable but important part in helping to make the retail links of the chain successful.

In one block in New York there were seven places selling candy. A new chain candy store moved in. One of its competitors was selling goods of its own make, trade marked, of course, but employing no special methods of selling, no novel containers,

etc. Another slightly higher-grade store of the same general nature had a shop neat and clean, but with nothing particularly remarkable. Candy was sold in two drug stores and three tobacco stores. When the new store moved in, it stressed appearance at once. The windows were made bigger and brighter, each box on display was opened, prices were plainly marked, all showcases were uniform and so placed as to obtain the best display of the contents. All containers were designed to suit the brand of candy, with vivid colors and attractive designs. Names and prices shown in the window were repeated inside.

To close this section, the statement of the policy of the Kroger Grocery & Baking Company in regard to store appearance is quoted:

1. Fresh paint—plain name.
2. Clean windows.
3. Clean interior.
4. Serviceable counters and equipment.
5. Small, well-assorted, packaged stock.
6. Signs on windows—fresh daily.
7. Lots of plain price tickets.
8. No cluttered-up corners.
9. No goods on floor—everything in boxes or on shelves.
10. Neat, business-like, and polite clerk.
11. Special leader daily.

Stock Arrangement.—If a store wants to sell its goods, it should put them where people will see them, and make them look attractive. This, like many other chain store principles, is nothing more than ordinary retail salesmanship. All goods cannot be displayed in the window, but all, or nearly all, of them can be displayed on the counters and shelves. This, of course, is not an easy matter. A poor display repels rather than attracts. But it has long been known that there is no easier way of selling goods than by placing them in sight.

Take, for example, the five-and-ten-cent store. Once in a while, trays may be found that are out of order and messy, but one may be sure they will not remain that way long. It will be noted that counters are filled, but never junky, and that shopworn goods are surprisingly rare. Nor are there any rusty goods on the hardware counter. Probably display sells more

articles in the five-and-ten-cent stores than the name of the brand or the need for the object. People buy what attracts them on the counters. The price is negligible, and, as explained elsewhere, the five-and-ten-cent stores pursue a rigorous policy of letting the goods sell themselves—by display.

Each chain will have to solve its own problems of stock arrangement, but certain suggestions may help.

1. Articles of one kind should be grouped by themselves. If a woman is looking for breakfast food, she should be able to find all the brands and kinds near each other.

2. Prices should be put on all necessity goods. If the goods are on shelves, the prices should be directly underneath. If on trays, as in a variety store, the trays themselves should be marked.

3. Articles sold most frequently should be placed near the clerk. This will minimize effort on his part.

4. Specials featured in advertising or in windows should be put in a prominent position and plainly tagged with prices.

Throughout this chapter the attempt has been made to lay emphasis on the standardization of all the physical aspects of the store, of its exterior and interior, of the size and the arrangement of the stock for the best convenience of the clerk and the public. By whatever methods it is carried out, the following principle is universally applicable: "Make the member stores as attractive as possible, inside and out, and results will be commensurate with the effort."

CHAPTER VII

PROTECTING THE STORE

As the number of stores in a chain increases, as the geographical distance of these stores from headquarters grows farther, as control grows more and more impersonal, it becomes more and more necessary to safeguard these stores from the carelessness and dishonesty of employees, as well as from the danger of holdups and burglaries. Losses sustained by chain stores are of two kinds:

1. *Losses through Slackness and Carelessness, with No Intentional Design on the Part of the Employee to be Dishonest.*—It is this sort of loss that the time lock is designed to prevent. Without an adequate system of inspection and protection losses of this nature may mount up rapidly, because the average employee is so constituted that he must have some sort of taskmaster set over him if he is to perform his full quota of work.

2. *Losses through Intentional Dishonesty on the Part of the Employee.*—Botho L. Mergenhagen, a criminologist, of Buffalo, N. Y., has gone so far as to state one out of every four employees is in some manner dishonest.¹ One chain detected petty thievery in 169 out of its 400 employees. This dishonesty included not only direct thefts, but also losses through giving greater weights and amounts to certain customers, collusion with thieves, or destruction of merchandise for some reason or other.

The department store has had to cope with the dishonest employee for many years. The chain has an even more difficult problem before it, because the opportunities and temptations are greater, due to the necessarily lesser degree of supervision. It is essential for the chain to do what it can toward eliminating the dishonest elements in its employ and in lessening the degree of temptation as much as possible.

¹ *Chain Store Age*, January, 1927.

Safeguarding Time.—One of the avoidable losses which chain stores can reduce, if not eliminate, is that of time. How much money may actually be lost if even ten minutes is cut off the working day may be seen from the following computation:¹

	PER YEAR	
Average rent per store, \$100.00 per month.....	\$ 1,200.00	
Average clerk hire including manager, \$40 per week...	2,080.00	
Average value of fixtures, \$1,500.....		
Average value of stock, \$1,500.....		
Insurance on stock and fixtures.....	50.00	
Interest on investment in stock and fixtures at 6 per cent.....	180.00	
Depreciation of fixtures at 10 per cent per annum....	150.00	
Total operating expenses per store.....	\$ 3,660.00	
Store hours daily 7:30 a.m. to 6 p.m., 1 hour lunch...		
Store hours Saturday 7:30 a.m. to 9 p.m., 60 hours per week.....	3,120	hours
Average business, \$700.00 per week.....	\$36,400.00	
Average cost of doing business \$1.17 per hour, \$0.0195 per minute		
Average sales \$11.67 per hour, \$0.1945 per minute		
Average loss for each lost minute of business through tardiness, prolonged lunch hours or early closing.	\$0.2140	per minute
An average loss of 10 minutes per day results in a loss of.....	\$667.68	per year

The above figures refer to a grocery-chain unit. In case rents should be higher, and store hours less, as they are in many chains, the proportionate losses would be greater.

Two methods of checking up on time may be used:

1. An inspection system.
2. An automatic check in the shape of time recording locks.

The chain wants to find out whether the store is being opened and closed at the appointed time, and also whether the store is closed at any time during the day without warrant.

Inspection by supervisors is obviously not efficient. Discovery of tardiness will be a matter of chance. Giving a percentage on sales is not sufficient to overcome the desire of the clerk for greater personal leisure. The amount which he would earn in the lost ten minutes will not always balance in the scale his own personal convenience.

¹ Furnished by the Silent Watchman Corporation, of New York City.

Many chains favor the use of automatic time locks as the best method of overcoming carelessness and indifference in store attendance. Among these chains are the Louis K. Liggett Company and the United Cigar Stores Company. The latter chain has been using time locks since 1911. The type of lock now in use automatically registers the initial assigned to the employee who opens or closes the store. This prevents one employee from shifting the blame on to another employee who also possesses a key to the store. Turning the key also registers the exact time of opening and closing and the date. In city stores, representatives of the locking device collect the recording tape once a week and rewind the device. In out-of-town stores the local manager rewinds the clock and forwards the tape to the company operating the system. This company makes a recapitulation by stores, forwards this to the United Cigar Stores Company, which in turn distributes the record to district managers, who check records for their stores and make investigation as to any irregularity shown by the tape, such, for example, as that of an employee entering the store after he had closed it once for the night.

It has been found that the knowledge that punctuality is automatically recorded keeps employees to a careful schedule, so that in the United Cigar chain punctuality is as high as 90 per cent. Punctuality in opening is regarded as particularly important in a tobacco chain because if customers on the way to work in the morning find a cigar store closed they will immediately patronize some store that is open.

F. L. Parsloe, sales manager of the H. C. Bohack Company, operating a chain of grocery stores, believes that time locks and clocks create an atmosphere of compulsion which is naturally resented by store managers. In this chain, each superintendent is required to open and close one store in his territory daily. Managers do not know which store he will open on a particular day. A further check is secured by having one of the directors in the company check up the superintendent. This chain allows some latitude to its employees in opening and closing. If a manager comes a bit early, he is entitled to leave a few minutes before closing time. Or if he is compelled to remain late, he may come a little after the regular opening time the next morning.

Each company will have to decide for itself which method of meeting the problem of punctuality will be employed, but with increasing competition and the added importance of cost reduction as a factor in competition, this problem must be settled satisfactorily.

Safeguarding Cash Receipts.—Hold-ups have increased in late years, especially in those metropolitan districts where chain stores are most thickly located. Cities differ a great deal in danger from hold-ups. For example, in Kansas City, rates for burglary and hold-up insurance are 100 per cent higher than they are in New York, or even in Chicago. In suburban and rural districts, chain grocery units in many cases do most of their business in checks, rendering them unprofitable subjects for hold-ups.

In general, grocery stores and oil stations are most frequently attacked, especially those located in the outlying sections where employees are few. It is interesting to note that meat markets are avoided because of the cleavers and the usual sturdy physique of the employees. In some cases, as in the cigar and shoe fields, stock itself is removed.

Protection against hold-ups can be secured from insurance companies, although preventive methods are better. Burglary insurance is of three types; first, covering robbery from within the store; second, robbery from the custodian outside the store; and third, paymaster robbery insurance, either inside or outside. Rates are sometimes so high that chains prefer to carry their own risks, especially when the amount of cash normally carried in the store is small. If regular collectors are used to get the cash from stores, or if district managers perform this service, it is often wise to have them protected by messenger hold-up insurance. In most cases, however, the manager or one of his employees deposits cash at the bank.

It is best in every case to try to keep as little money as possible in the stores. Some chains place a limit on the amount of cash to be kept in the store. Deposits should be made with the bank at least once a day, and, where cash is taken in rapidly, perhaps as often as once an hour. Arrangements for receiving cash Saturday night is made by some banks, and this service is valuable for the chain manager.

If a safe is used, it is recommended that it be placed in the front of the store in plain view of the street. The burglar-proof variety should be employed, as small safes merely indicate to the burglar where the cash is kept, without affording adequate protection. If safes are installed, it is wise to move cash to them frequently from the cash register.

Where no safe is used, the manager must either hide the cash left over at the end of the day or else take it home with him. This works out satisfactorily where the amount is not large.

The criminal often has a better chance to rob the chain store than an independent store. In the first place, the chain employee is not likely to be quite so careful as the independent owner. Furthermore, the criminal can find out the standardized method of taking care of cash receipts and can apply the knowledge to any link in the chain. In every case, it is desirable to make collections as inconspicuous and irregular as possible.¹

Employee Dishonesty.—Mention has already been made of the widespread diffusion of dishonest employees. Although there is little likelihood that the percentage is as high as the 25 per cent mentioned by Mr. Mergenhagen, it may run as high as 10 per cent. Suppression of dishonesty is necessary from the standpoint of stopping leaks, but is also necessary for the protection of the great body of honest employees. To this end, certain rules should be observed:

1. Temptation should be kept out of the employee's way. Even though honest at the start, if the temptation is too great, the employee may succumb.

2. Men already in debt, or men who buy on the installment plan, that is, men already under temptation, should not be employed.

3. The dishonesty should be caught as soon as it is started. Sometimes the chain may obtain evidence as to pilfering by observing whether certain employees live beyond their apparent means. Under ordinary conditions, the pilfering employee spends his money at once.

4. The system of dishonesty that has been used should be found out. When two or more employees are working in

¹ For excellent discussion of this subject the articles on "Safeguarding the Day's Receipts," in *Chain Store Age*, April-May, 1926.

collusion, the chain loses heavily, and here it is most important to find how the system was worked.

5. The chain should try to recover its losses from the culprit.

WHY THE CHAIN RESORTS TO SERVICE SYSTEM IN ELIMINATING DISHONESTY

Every concern employing a number of people has to contend at times with the disagreeable necessity of dealing with circumstances surrounding the detection of dishonest employees.

One of the responsibilities and duties in conducting any business is to protect the honest employees.

For these reasons, we feel that a Service Department will benefit all concerned, and we have therefore engaged a Service System which checks up our employees so that we may be in a position to know exactly what is taking place in our business at all times.

A store manager or department head may have under him reprehensible employees, and if wrong doing is permitted to continue unchecked, the personal standing of the store manager or department head may be impaired.

When practically every member of an organization is conscientiously and enthusiastically trying to follow out the policies of a Company, and among them is a clerk, who, in every manner, shape and form, tries to evade, misrepresent and shirk his or her own duty, it is not fair to the other employees to permit this condition to continue.

Each clerk is judged by ability, honesty, and interest in his or her work. If a store or department shows an unusual loss, it is difficult for us to place the responsibility, and if we do not endeavor to find out who is dishonest, the honest clerk will suffer as well as the dishonest.

For this reason we endeavor to discover the dishonest ones, so that the honest ones may progress.

This article is written for you because we doubt that many of you have thought about this matter from our viewpoint, and because we want you to feel that in conducting this business, *your* main duty consists in advancing the Store's interests at all times, while the Store's main duty consists in granting reward where it is earned.

It is because we wish to give considerate treatment to the deserving and eliminate wrong doing, that we employ a Service System.

You are thoroughly familiar with the rules and regulations of your Company. We expect you to adhere strictly to them, and carry them out at all times. It is far easier to obey orders than to disobey them.

FIG. 9.—In order to discourage dishonesty, the services of an outside organization may be necessary. The above announcement was issued by one chain to explain to its employees why it decided to seek assistance outside the organization.

It is regarded as undesirable to try a case in court if possible to avoid it. In some cases, employees caught in pilfering operations have been taken back and have turned out well. Some chains have culprits sign confessions of guilt; others exact a heavier penalty. Almost all chains endeavor to get restitution of what has been taken. It has been suggested that a centralized bureau for confidential interchange of information relating to chain store employees might be instituted. This would make it impossible for an employee, once detected as having been dishonest, to secure employment elsewhere in the chain store field.

Where dishonesty gets beyond the control of the chain, it may be necessary to call in an outside agency to check it. Figure 9 reproduces the announcement made by one chain to its employees in explanation of its action in enlisting the services of an outside organization to put down dishonesty among the employees of the chain.

The *Chain Store Age* quotes several common stunts by which clerks may get the better of the cash register.¹

1. A less amount is rung up on the register than is bought by the customer. For example, if the customer buys goods valued at \$1.35, the clerk will ring up 35 cents, giving the customer the correct change and keeping the dollar. Provided that this is not done too often during the day, this system may be worked successfully. The remedy is to make clerks hand out receipt tickets to customers, or else have them wrap the receipts in the package.

2. The clerk asks the manager for the register readings before the cash is made up, and then pockets the surplus which he has built up. Managers should be forbidden to give out register readings.

3. The clerk fails to give receipts to a customer whom he knows personally. In this way he avoids being caught by detectives, as he never takes a chance with a stranger. A person working such a system as this is usually caught by accident,

¹ September, 1926.

such as having goods returned for exchange when he is not in the store.

Inventory Shortages Due to Dishonesty.—Inventory shortages may, of course, be due to faulty methods, incompetence of employees, or dishonesty. It is the latter subject which is discussed here. Faulty methods may be corrected and incompetent employees dismissed. Sometimes the shortages may occur through dishonesty of the truck drivers. This can be tested easily by putting something on the load which is not on the delivery slip. The honest driver will return it to the warehouse.

A frequent and minor source of loss to the chain is due to the appropriation by the manager of whatever overages may occur due to merchandising methods, such as when goods may be billed to the store at three for a quarter, while many sales are made at ten cents straight.

The National Chain Store Grocers' Association sent out a questionnaire in regard to losses sustained by members through theft, and from the replies the *Chain Store Age* draws the following conclusions:

1. Most chain store grocers realize that inventory shortages are apt to reach serious proportions unless proper measures are taken to prevent or minimize them.

2. Many chains are too easily satisfied with their inventory showings, failing to realize that legitimate overages frequently operate to conceal illegitimate shortages.

3. The principal safeguards against illegitimate shortages, whether through incompetence or dishonesty, seem to lie in:

- a. The careful selection of store-managers.
- b. Protection through bonding.
- c. An adequate checking and inventory system.
- d. Offering incentive to honest storekeeping by giving managers a liberal percentage of the net profits of the stores they manage.
- e. Penalizing managers for unjustified shortages.

One chain has been very successful in converting stock shortages into overages by rigid enforcement of the following rules:

1. No man is to be employed whose references indicate that he is of the "floater" type.

2. No man is to be employed whose references show that he has been accustomed to more money than he will be able to earn with us.

3. A cash or real estate bond is required of all managers.

4. All managers must first serve at least six weeks as assistant manager before they are given charge.

5. When an assistant manager is installed as manager of a store, he takes his inventory the night before under the surveillance of a supervisor and embodied in this inventory is a form of receipt which he signs.

6. All book work must be kept up daily in all stores.

7. When we take his receipt for the stock and cash on hand the supervisor hands him a general letter of instructions embodying all these rules, and forcibly impressing upon him his responsibilities as a store manager. We have a form of receipt which he signs in acknowledgment of this letter of instructions which is filed with the first inventory.

8. We have five assistant managers available at all times for promotion. Our men know this and the moral effect of having well trained men waiting for positions as managers has its good influences.

CHAPTER VIII

BUYING

The right to buy direct of the producer has been acquired by chains only after long controversy. Although the relative importance of this right has decreased now that it has been acquired, nevertheless, its very acquisition resulted in a lowering of retail prices. It is only recently that chains on the Pacific Coast have been able to throw off the incubus of the jobber, who took regular toll of the retail store, even on the goods which he did not carry in stock, and on which he did not perform the warehousing function. As soon as a chain organization is able to buy direct, it stops buying from jobbers, and it goes much farther than any independent store ever went. It is computed that retail grocers buy from 70 to 80 per cent of their stocks from jobbers, while chain stores probably buy about the same percentage of their stocks direct. In other chain fields, while percentages vary, the majority of stocks, in almost every case, is bought direct.

The chain begins to build up a buying organization as soon as it attains any size. At first the owner almost always acts as buyer, but as the chain grows he delegates this task to a buying specialist. If the chain grows very large, a staff of buyers is formed, acting from headquarters. A department-store chain, even when handling such staple goods as in the Penney stores, demands a buying staff with specialists in each field.

Buying Channels.—The chain store has been largely responsible for the precarious position of jobbers in certain lines, especially foodstuffs. Even if the jobber can teach independent stores to band together for purchasing purposes, he is only educating them to a point where they too will throw him in the discard and go direct to the manufacturer or the producer. Even though the jobber gets no more than 2 per cent, this may be a large consideration when several carloads of one item are used in the

course of a year. Naturally, the chain stores work to get on the direct selling list of all the manufacturers. This has not been an easy proposition. Manufacturers, under the veiled or open threat of jobbers to discontinue their lines, have hesitated. They were uncertain as to the continued prosperity of the chain store and feared to find themselves shut out from the channels of distribution in case of failure. This was especially the case where branded goods were concerned. The manufacturers of Kellogg's Corn Flakes had a famous controversy over selling direct to chain stores.

As chain stores have become more powerful and the old-line jobbers have become weaker, conditions have changed so that, as was said above, practically all chain stores are now able to buy everything direct. The inability to buy direct and the consequent entry of some chain stores into manufacturing will be discussed later.

The attitude of the manufacturer has also changed. He prefers to create consumer demand for his product by judicious advertising rather than to shut himself out of a sure and steady retail outlet. This, of course, does not mean that the jobber has been eliminated. Frequently, articles are needed which are used in such small quantities that it is found better policy to let the jobber carry the risk and pay him for it. This is also true of articles the price of which is likely to fluctuate violently. In some cases, the chain store prefers to let the jobber carry the risk.

The ordinary policy, it should be repeated, is to buy direct. But the following is the experience of one medium-sized grocery chain. The usual policy was to buy canned goods direct from the canning companies. But often the chain dealt with a canned-goods broker, who acted as the canners' salesman. One broker, for example, sold the output of two Michigan canneries, and also represented the account of a sal-soda firm, a large pea-bean grower and a peanut growers' organization. Naturally, this broker, with his varied lines of goods to sell, could afford to get around to his trade oftener than a representative of only one house. In addition, this man sold the chain beet sugar when it was wanted. Beet sugar could be bought direct by telegraph, but as long as it did not cost any more to buy through a broker

it was an advantage to have a broker handle the business. He took an interest in the chain, wanted to see it make money, and frequently gave advice as to market changes that were well worth while.

The channels of purchase are more or less determined by the policy of the chain management. The Kroger Grocery & Baking Company, for example, one of the largest grocery chains, made it a cardinal point of their policy to buy direct, not only from manufacturers but from growers. Other chains will buy from wholesalers and jobbers where they consider the price is low enough, but these are ordinarily the small- and medium-sized chains.

Analysis of Purchasing Sources.—A questionnaire investigation of certain chain practices made by Wadsworth H. Mullen, and reported in the *Harvard Business Review*, throws a great deal of light on the amount of direct buying done by chains in the grocery, drug, shoe, and tobacco fields. Returns from eight of the larger grocery chains showed that none purchased crackers or bread from middlemen. In the case of no item were more than four chains dependent upon middlemen for part of their supplies. Even where four chains bought of the middlemen, two or more of them bought in insignificant quantities.

In the case of drug chains, less than one-fifth of the stock normally is obtained from a jobber, while the average independent drug store buys approximately 60 per cent of its needs from the jobber. The chain normally purchases novelties direct because such items are out of the regular drug field, and manufacturers are more willing to deal direct with chain outlets.

Only a small fraction of the purchases of six large shoe chains investigated were made through middlemen, in every case less than 10 per cent of total supplies. The average independent shoe merchant is estimated to buy about 40 per cent of his requirements from middlemen.

The tobacco field, like the grocery field, has always been considered a jobbers' stronghold so far as independent dealers are concerned. In the case of the large tobacco chains, the jobber has virtually been eliminated.

The "Five and Tens."—Nowhere is efficient buying more important than in the so-called five-and-ten-cent stores, where

the ability of the store to stock articles is more or less dependent on the price at which these articles are purchased. During the war, all the large chain store organizations, with the exception of the Woolworth chain, found it necessary to abandon the 10-cent limit. This was due entirely to inability to purchase a large enough variety of goods to retail within the 10-cent limit. And the success of a five-and-ten-cent store chain is determined by the volume of sales it can attain.

Woolworth was able to maintain its price level throughout the war by the enormous volume of sales. For example, in one year they sold nearly 90,000,000 pounds of candy—enough to fill a train of freight cars 24 miles long. This was not inferior candy. But the enormous volume of sales enabled the manufacturer to make a profit on pure candy even at the low prices. Illustrating this point further, in one year Woolworth sold more than 9,000,000 yards of curtain material, 350,000 barrels of glassware, 20,000,000 pieces of enamelware—enough to load a freight train $7\frac{1}{2}$ miles long. In 1918, the year of the influenza epidemic, they sold 54,000,000 handkerchiefs at the regular price limit. Despite the fact that the cost of raw material kept rising rapidly, this enormous turnover allowed sales to be made at a profit.

As the Woolworth Company says:

The Woolworth stores buy their goods where goods are to be had, and are ruled by the same economic laws of manufacture and selling that govern every other retailer. The more of a thing that can be produced the lower the price can be.

They go on to illustrate their point and the example is well worth quoting, although it has been used before.

One of the Woolworth buyers saw a ring which retailed at 50 cents. He thought this ring would go well in the Woolworth stores and accordingly approached the manufacturer.

"Absurd!" was the manufacturer's comment, "I can't make that ring so you can sell it at 10 cents. Anyway—I am selling plenty as it is—more than 450 dozen this year."

The buyer merely said that he could sell a "great quantity" and by dint of persuasion got the manufacturer to try the experiment. During the first year 5,000 gross were handled, or 60,000

dozen. This is exactly the point. If the manufacturer only made 450 dozen, he had to get 50 cents at retail, but if he made 60,000 dozen the economies he could effect in manufacturing, standardization of processes, etc. offset the lowered retail price.

Most retailers base their selling price on the basis of the purchase and overhead cost, and this same policy is followed out by the five-and-ten-cent store chains.

Purchasing Terms.—J. C. Penney once said the first principle of merchandising was to go where the article was for sale at first hand and then to offer cash. A primary reason for chain store purchasing efficiency is that the chain store pays cash. In this way it obtains a further reduction in price by discounting bills promptly.

As long ago as 1921, the Kroger Grocery & Baking Company advertised in the produce papers, stating that it was in the market for carload lots of apples, potatoes, onions, cabbage, sweet potatoes, peaches, melons, and oranges, bought direct or consigned by grower or shipper. The American Stores Company has also been steadily advertising along this line. The Kroger advertisement reads in part as follows:

The more than 950 Kroger stores form a direct outlet, Mr. Grower and Mr. Shipper, over our counters to the consumer. Our tremendous outlet will make a steady market for you.

The grower has the option of accepting cash or consigning at the highest market price.

In some cases a chain is given the privilege of future dating. That is, the bill is dated several weeks later than the date on which the delivery of the goods is made. Frequently the goods are already sold before the bill comes.

Chain stores have found that buying for cash is as advantageous as selling for cash. It insures prompt service and delivery from manufacturers as well as a saving in discounts and bookkeeping for the chain.

Buying Ahead.—Whether it is advisable to purchase far in advance is still a moot point in chain store operation. There are arguments on both sides. Generally speaking, however, there is much less risk in contracting ahead for staple articles than for products in which demand fluctuates or totally disappears.

For example, it has never been the policy of the J. C. Penney Company to buy far ahead, but rather frequently and for cash. The company holds that it is no part of the merchandising function to speculate in goods values. It might be possible to make large profits and it might not, but, in any event, it would mean altering the present cost-plus price policy. As the system is arranged now, the stores turn their stock on an average of five times, and, when any major change in price reaches them, the stock is already sold. Neither branches nor stores carry stock above current needs. This naturally means that there are no special sales.

A certain grocery chain which never makes merchandise contracts for a year ahead, and seldom buys even staple goods in carload lots, has evolved the following system. It buys laundry soap in 100-case purchases. At the same time it stipulates that delivery shall be made in 10-case lots, and by the time the whole has been received it has been nearly sold. It always tries, however, to keep a 30- to 60-day supply on hand.

If a chain overloads, it is usually in a far better position, because of its numerous retail outlets, to unload than is its independent competitor. Yet the evils of overloading are just as apparent. During the war, for example, the chain men's furnishings shops overexpanded and overloaded with merchandise. Contrary to the condition prevailing in many of the chains, the product which they sell is not a necessity, in the strict sense of the word. A buyer's strike will hold up sales indefinitely, and this is exactly what happened. Where the Penney Company came through the period of storm and stress with comparatively small losses, some of these chain furnishings shops had large reserves of merchandise and also had commitments a long way ahead. Because of the nature of their trade, their stock proved unwieldy. Sixty per cent of their business was in shirts and the public at the time was absolutely indifferent to shirts.

Buying far enough ahead to insure supply in adequate quantity is necessary. Buying ahead too far is dangerous. There is a proper middle distance which experience will determine with a fair amount of exactitude.

One grocery chain, the purchasing policy of which is typical of many of the medium-sized chains, says:

We buy canned peas, corn, tomatoes, etc. in large enough quantities to last us through most of the year. Dry groceries, like beans, flour, cornmeal, sugar, etc., are bought just from week to week. We probably make a couple of turnovers a month on some of these items, whereas with certain canned goods we have to carry them in stock a whole year before they sell. Canned red pie cherries, rhubarb, and spinach, for instance, are packed in the early summer but do not sell in any big quantity until the following spring, when people get a touch of spring fever and want these three spring-like items.

This brings up another point—seasonal purchases. It is true that, in certain lines of merchandise, it is possible to predict in normal times a particular month or months when the price will be especially low. In canned goods, for example, the price will be low right after the canning season, and, if the chain wishes to purchase the output and store it away, it is possible to reckon approximately whether this policy will prove profitable or not. This problem, however, is not confined exclusively to the chain store but is merely one of the general rules of purchasing—to buy when the article is cheapest.

The modern trend is towards what is known as “hand-to-mouth” buying. That is, efficient railroad and truck service, and efficient communication by telegraph, telephone, and mail, allow a chain to buy often. In women’s ready-to-wear lines, for example, buying used to be done regularly at twice-a-year intervals, while now it is done almost every month. The tendency is against buying-futures on a pro rata delivery plan, which amounts practically to buying something which is not yet produced.

The Buyer.—The buyer in any organization is an important individual, but in the chain his position is particularly prominent. But whereas in a small organization a buyer often has to turn his attention to many dissimilar articles, in the larger chains the buyer is an expert in a particular line. He knows the manufacturers of that article, he knows the sources of supply, the channels of trade, and the market trends. That is, by a careful study of the market, together with a study of business conditions in general, he knows fairly well what the market will do.

He usually belongs to local and national organizations of purchasing agents, and subscribes for publications devoted to purchasing as well as for trade papers of the industries from which he gets his supplies. He has a wide range of acquaintances and is an exceedingly wide-awake business man. Good buyers are always in demand.

All purchases in the chain are made by the buyer or purchasing agent, as a general rule. Local managers, however, are often given an opportunity to pick up perishable goods from local sources and sell them. Grocery chains often do this.

To return to the buyer, he has, depending on the size of the chain, several assistant buyers under him who are all experts in different lines. The five-and-ten-cent chains, for example, have large staffs of buyers, each experienced in a particular line.

The main buying office of the J. C. Penney Company is in New York, with branches at St. Louis and St. Paul. The plan is to provide a pipe line from the sources of supply direct to the distributing stations. As New York is the center of so much of the buying activity, many chains, like the Penney organization, maintain offices there for purchasing purposes.

It may be necessary to maintain buyers at distant points. Clothing chains, for example, might have buyers in New York and Chicago, the centers of the garment trade. They might even have buyers in London or Paris. Shoe chains that do not manufacture their own product would probably have a buyer stationed in some shoe-manufacturing center.

At all events, the chain store buyer goes out to buy and does not remain at home waiting for salesmen to visit him.

Buying Policies.—How far may the buyer act on his own judgment and to what extent must he follow the policy of the store? There are many variations. In general, however, some such policy as the following is used:

1. For staple sellers a certain rate of turnover has been established. By keeping records, it is known just about what quantity of an article of a given quality and a given style is needed. Therefore, the buyer is authorized to keep a comfortable margin ahead of requirements.

2. With novelties and new products, the store manager is often given a certain amount and told to feature it. As results come

in, the buyer is informed and from these results he makes corresponding purchases.

Some buyers may have more authority, some less. If a buyer could prove to the management of a chain that he had an opportunity to buy up the product of an entire plant for a year and also could show how that product could be moved, in all probability he would be authorized to go ahead and make the purchase.

Some of the large chains permit local purchasing in some cases, as has been mentioned before. In the big cities where there is more than one store, an assistant buyer may be sent out to pick up articles out of stock to tide the stores over until shipments arrive from the company. One company is known to allow its store managers to buy from traveling men. The store manager may be allowed to purchase any extraordinary bargains, provided he is sure he can dispose of the merchandise thus procured.

Branded Goods vs. Private Brands.—The question of private brands is discussed elsewhere, but a few words are necessary here in relation to the buying policy. The purchases of a chain are made strictly according to the criterion of what goods it is going to be able to sell, and at what prices. That is, the needs and desires of the community to which it caters are paramount. If there is a call for advertised goods, the chains endeavor to satisfy this call. At one time there was much substituting in chains, but this policy, when found unprofitable, was abandoned, and, instead, the policy was adopted of selling the customer what he wanted.

Some communities demand advertised brands; others prefer the larger quantities possible to obtain from the chain's private brands. About one-third of the sales made by the large grocery chains are estimated to be under their own private brand. Drug chains sell about 10 per cent under private brand and shoe chains 75 per cent.

The buyer of a five-and-ten-cent chain is said to divide his purchases more or less as follows:

1. **Advertised lines.** Such articles catch the eye of the consumer immediately on entering the store and make prestige for the five-and-ten-cent company. More and more advertised articles are finding their way to their counters, owing to the profitable

results obtained by manufacturers from this easy method of sampling (discussed in the following section).

2. Articles which will give the impression of a great deal for the money. These have been purchased by the chain at bargain prices, with this end in view.

3. Special-feature articles made to draw trade.

Buyers should constantly look for good prices, but it is a mistake to imagine that quality should be sacrificed. A chain store ordinarily has to maintain a certain standard. In fact, a great part of its trade is obtained from a recognition of that standard of quality. The buyers must keep this point in mind all the time, whether they are purchasing branded or unbranded goods.

Some chains, such as the Piggly Wiggly, have confined their purchases entirely to branded goods. They prefer to let the manufacturers assume the selling effort. Other firms, such as Penney, buy only staples—no fancy or unusual goods. Their appeal is directed to the middle class, and they do not care to deviate from the policy of carrying only goods in ordinary demand. In shoes, for example, they do not carry “double A.”

Many chains have the policy of selling branded goods and private brands as well. In fact, this seems to be the modern trend—to allow the customer to decide what the store shall sell. This policy, of course, is directly reflected in the purchasing department.

Further Buying Factors.—Chain store buying is not bargain hunting alone. While price bargains are rarely turned down, there is great danger in constantly driving too hard a bargain. If a manufacturer is overreached it is quite likely that he may try to recoup some of his profits by cutting down on the quality. Similarly, there is a temptation for a buyer who sees an opportunity to get merchandise very cheaply, to forget the requirements of the market for which he is buying. It is a sound rule to make the basic buying policy one of buying for stock turnover rather than for price margin.

Chain store buyers usually have a definite idea of what they want to buy, and although these requirements naturally differ with every product, they normally have one point in common, namely, that they consider the suitability of the product for the

consumer primarily. The following factors are used by a successful buyer in the five- and ten-cent field.¹

1. The merit of the article itself.
2. Probable consumer demand.
3. Size of the carton or package.
4. Relation of carton to volume of contents.
5. Attractiveness of package.
6. Character of shipping container.
7. Reliability of manufacturer.
8. Cost of re-sale price.

It is worthy of note that cost is the eighth factor in the list, while the first is the merit of the article itself.

Under certain conditions, it is well worth the buyer's while to consult store managers on the advisability of stocking certain merchandise in the chain units. The store managers are in constant touch with the buying public and may have worth-while suggestions to offer. Even though it accomplishes nothing further, it secures the managers' cooperation and belief that they are vital integers in the chain organization. Especially if they committed themselves favorably to merchandise, they will be as certain as is humanly possible to move the merchandise once it has arrived at their stores.

The Chain Buyer and the Manufacturer.—Some buyers have found it to their advantage to get in extremely close touch with the manufacturers. They have been able to contribute towards the more efficient handling of the manufacturers' own problems. Manufacturers, as the F. W. Woolworth Company says, are not necessarily merchandisers. Many times they cannot see the possibilities of an item they are shown. Buyers have frequently gone so far as to show manufacturers how they could revise their methods so as to increase their efficiency and make a larger output possible. The buyers know that, unless they can make it possible for the manufacturer to get a fair profit, their source of supply is bound to be curtailed, therefore, they work in the closest cooperation with the maker.

As an example of this, they quote celluloid dolls which the war had made impossible to get in America, simply because no one over here knew how to make them. But the buyer who had

¹ See article by M. L. Beard in *Chain Store Age*, June, 1926.

previously purchased toys in Europe before the war had made such a close study of the subject that he was able to show American manufacturers how to produce celluloid dolls which would retail at 10 cents.

Christmas-tree ornaments were scarcely to be found anywhere the first years of the war. Again, the Woolworth buyer induced a manufacturer to try some experiments, and as a result the Woolworth organization sold millions of Christmas-tree ornaments.

Woolworth has been given as an example of the good results which can be obtained by close contact of the buyer with the manufacturer. But, as a matter of fact, the buyer of any chain has the same advantages open to him. He, too, can become acquainted with the manufacturers and, knowing as he does or should the demands of the public to which his organization caters, he can often make valuable suggestions to the manufacturer. The buyer should remember that anything which helps the manufacturer to make more money will in the end result in a more satisfactory price to him.

The Manufacturer and the Buyer.—It is also possible for the manufacturer to work with the chain store to the advantage of both. One of the most frequent uses made by the manufacturer of the chain is in the matter of sampling. The manufacturer's object is to obtain as much publicity as possible for his product. Sampling is one of the best methods, and where it can be done at cost, or even at a profit, as through the chain stores, it is doubly valuable. Naturally most of this sampling is done by means of the five-and-ten-cent stores. Many customers for the manufacturer's products are obtained who would not pay 50 cents or more for an unknown brand, but will try a ten-cent sample package. The manufacturer, of course, hopes to get those who buy the sample as regular customers for the larger sizes.

Manufacturers who employ demonstrating forces can sometimes secure space in chain stores, provided their product is a good one, and the chain can be brought to see where sales of this product will be increased appreciably.

One of the most profitable strokes made by a manufacturer of hosiery was to induce a chain handling shoes alone to put in its brand of hosiery throughout its stores. The chain store does

not ordinarily believe in taking on exclusive agencies. During the fight conducted on the Pacific Coast, to buy direct, however, the manufacturer of a well-known dessert refused to sell the chains. The result was the chains turned their full buying power to establish a local product, with the curious result that this local product now outranks in sales the nationally advertised dessert in the independent as well as in the chain stores.

Occasionally a manufacturer with a new product can in some way enlist the help of the chain in testing out market reactions. If he can get the chain to give him window space, and furnish him the results in sales, he has a very valuable index as to the reaction of the market towards his product.

The Manufacturers' Salesman and the Chain.—Manufacturers are only now beginning to understand how to deal with their chain customers. The Hills Brothers Company, makers of Dromedary Food Products, has gone so far as to employ a special sales force for dealing with chain buyers, since the problems that arise are so different from those arising in the case of independent retailers.

The buying headquarters in some chains makes out a list of approved manufacturers from which store managers may buy if they so decide. It is wise policy on the part of manufacturers who have succeeded in getting on the list to visit the various chain units and convince the managers of the desirability of purchase.

The following hints to salesmen calling upon chain stores will interest many readers:¹ The salesmen must try:

a. To see that the chain store manager is actually selling at as low a price as headquarters has authorized.

b. To interest the chain store manager in a brand which may be carried in the warehouse but which has not yet been requisitioned by the particular store in question.

c. To interest the chain store manager in a brand not carried by headquarters. (Pressure from a number of managers is a strong incentive for headquarters to stock.)

d. To get accurate information about the prices and the moves of competitors and the relative sale of our brands and competitors' brands.

¹ From a pamphlet "*Selling to and through the Chain Stores*" published by The Blackman Company, advertising agency.

e. To implant in the minds of chain store managers selling points about merchandise which they in turn will implant in the minds of consumers.

f. To sell the store manager on some selling plan for our products which has been approved by headquarters but whose adoption is optional with store managers.

g. To make the acquaintance and win the friendship of chain store supervisors (who are encountered from time to time in the stores). Chain store supervisors can do much to help or hurt the sale of a product or a plan to sell that product.

h. To win the friendship of store managers against the day when they may open up their own independent store in the neighborhood of the chain store they now manage. (Many do.)

i. To keep stocks clean and neat.

j. To sell the manager so strongly on our products that he will not substitute other products for them.

k. To stimulate the sale of a product which has been lagging and whose discontinuance by headquarters is feared.

Buying for the Penney Chain.—The method of buying followed by the J. C. Penney Company, as explained by J. C. Penney in the *Dry Goods Economist*, is of the greatest interest to all those concerned with chain store activities. When the stores were few in number, the managers came East every six months to buy merchandise. As the store units increased, the number of managers trying to buy at the same time became so great that the operation was unwieldy and only partially satisfactory.

The next step was to establish in New York a buying organization formed of buyers trained in the organization. It was then found that the local knowledge of the various managers prevented maximum intelligence in buying. The method was thereupon modified somewhat. Twice a year, New York, St. Louis, and St. Paul buyers meet managers at five different points—Cleveland, for eastern stores; St. Louis, for southern and central stores; St. Paul, for northern and central stores; Salt Lake City, for the Mountain region stores; and Portland, Ore., for northwest and Pacific Coast stores.

Previous to these meetings buyers build up complete sample lines which they exhibit to the managers. The managers thereupon make out their orders and purchases are pooled and bought in quantities.

Great care is taken when managers make their initial purchases. Each manager knows what his capital stock is, and what percentage he may spend for fixtures. He is allowed to buy no more than 50 per cent of his merchandise requirements, the balance of purchases being deferred until the store is started and he can judge at first hand of the character of the demand in the particular community.

"Want books" are used in each department for goods not carried in stock. The manager examines these to see whether there is enough demand for any given article to warrant stocking it.

The greatest consideration in buying is rapid turnover. The aim is to make small profits on a large volume. Some stores make six to eight complete turnovers during the year. A smaller number have made a complete turnover on an average of once a month. This policy has eliminated the clearance sale. It is also believed that it creates confidence—a woman will buy a coat or suit at the beginning of the season knowing that her neighbor will not be able to purchase the same article later at half the price.

This chapter has described the general aspects of the purchasing problem in their broader phases. The constant trend of the chains towards a more direct purchasing contact with the manufacturer or other source of supply has been emphasized. This purchasing economy is effectually summed up in the phrase "centralized purchasing department and quantity buying." Cooperative buying associations have attempted to do the same thing and their failure to secure the desired results leads to the conclusion that not so much of the chain's efficiency as had been supposed was due to the purchasing. Purchasing is one of the essentials, but it is not the only one.

CHAPTER IX

THE CHAIN STORE AND ITS MARKET

The merchandising process, which comprises within itself the two separate operations of buying and selling, depends for efficient functioning upon a knowledge of the market, which, in the case of chain systems, consists of the ultimate consumers. Chain store principles and practices to date have evolved from trial and experiment. The secret of the tremendous chain development is to be found chiefly in the public pressure for cheaper distribution, and the ability of the chain to satisfy this desire. Organization and methods suitable to large-scale retailing enterprises have been perfected by the leading chains. The time is nearly here, if it has not come already, when closer attention will be paid to scientific study of the market, for it is only through such study that ultimate preeminence in the field can be established.

There are three essential parts to market knowledge:

1. The products sold come first; whether they are luxuries or necessities, the number of them to be stocked, the variety of the stock—all this in relation to the market served by the store.
2. The market itself is the next point; how far the range of the store extends, what factors affect sales resistance, what appeals are most successful in offering the products to consumers, and many other factors varying with the particular chain.
3. Finally, there is the problem of bringing the products and the market together most efficiently, that is, at least cost yet with a maximum of consumer satisfaction.

The simplest method of studying the market is to analyze sales records. This, in many cases, is already being done. Another valuable method is to make tests and experiments, and this also is being done in a few cases, and will be done more in the future. The result of market study will be better forecasting in the preparation of buying and selling schedules. The sales

problem is the great problem in chain stores as in all retailing. All others are subordinated.

Chain Store Products.—What sort of products can be sold in chain stores? At first thought, it would seem that almost any product would be suitable. The chain store idea is not limited to tangible products, but can be extended to intangible products, such as a chain of theaters, hotels, and shoe-repair shops. Actually it has been found that certain types of products can be sold more successfully through chains than can other types. On the other hand, the list of products which are sold by chains has been enlarged so rapidly of late years that it would almost seem possible to say that, given the right management and methods, practically any type of product could be merchandised by a chain system.

Nevertheless, certain observations may be made as to the type of product which is most suitable for chain merchandising:

1. The more rapid the turnover, the better adapted the product is for chain store retailing. A well-known brand of cigarettes, turning once a week, is better than a line of cut glass turning once a year. Slow turnover means large overhead expenses, which means likelihood of failure in efficient chain store operation.

2. The product should preferably be a necessity or a semi-necessity. The chain store must have constant patronage. It must be able to predict its purchasing requirements. The demand for luxuries is uncertain and the larger profit cannot offset this uncertainty.

3. The article should be portable. Since most chain stores are cash-and-carry retail outlets, the easier the article is to wrap up and take away, the more sales can be made.

4. The product should be such as to permit centralized and standardized executive control.

The fact that a product is merchandised successfully through chain stores without fulfilling all these requirements does not prevent these rules from general application.

The Number of Products.—A chain store may carry a larger or smaller variety of goods than its independent competitor. The only criterion for the number of items is the sales record. In a grocery chain, the number of products in the unit store is usually less than in the independent store. The Kroger Grocery

& Baking Company usually carries not more than 400 items; the First National Stores has a list of 600 items. The average independent store stocks in the neighborhood of a thousand items, and some chains also have as many, although the chain tendency is to carry only groceries which show a rapid turnover, and this naturally leads to a simplified stock. Only brands of known reputation are carried. No goods for which there is little call are allowed to take up valuable shelf space. The stock in the Piggly Wiggly Company's stores is necessarily restricted to the best-known and best-advertised brands, because the customer makes her own choice.

With the drug store the reverse is true. The large chain store is likely to have a much larger variety of products, due to its great merchandising power. The chain drug store, usually located in advantageous city sites, can often stage a special sale and complete it in one day by means of newspaper advertising, a proceeding outside the reach of the independent druggist.

The stock problem of the five-and-ten-cent store is a difficult one. Professor Duncan in his book, "Marketing, Its Problems and Methods," states that 92 per cent of the stock of such a store is made up of everyday necessities; 4 per cent, luxuries; candy and jewelry novelties, 2 per cent; and fads and souvenirs 2 per cent more. In addition, there is always an opportunity for trying out experimental goods. Some five-and-ten-cent stores take on as many as 48 different lines of goods, including groceries, automotive parts, etc., and with such appurtenances as a flower department, a photograph gallery, a soda fountain, and a restaurant. It is claimed that the limit of expansion has been reached in the variety field, and that further extension of lines carried must be reached by raising the price limit. In support of this argument, it is noteworthy that, with the exception of Woolworth, the other five-and-ten-cent store chains have raised their price limit while retaining the selling advantage contained in the name five-and-ten-cent store.

The United Cigar Stores Company claims to have deviated in but two respects from its original policy, and one of these deviations was to take on the retailing of sundry merchandise, such as candy, chewing gum, safety razors and playing cards. Several members of the organization were averse to taking on lines which

would, in their opinion, detract from the individuality of the store and render a clerk trained to sell only tobacco products less efficient when he had other things to sell as well. As a compromise, at first only goods were taken on which it was not necessary to sell, but only to put on display. Then other articles were tried out. Pencils, handkerchiefs, and books were not particularly successful, but chewing gum was an immediate success. Candy was sold in packaged form. At one time a bulky glass jar was introduced for use at home for holding cigars, and sales surpassed all expectations, the jars being carried off in thousands.

When the now defunct United Retail Candy Stores Company started in business, it was feared that sales of candy in the cigar stores would immediately fall off, but, on the contrary, no effect was observed. A cigar store is an excellent place for retailing candy as a side line, because approximately 80 per cent of all candy sales are made to men.

Number of Lines.—The policy of pleasing the public extends logically to the number of lines carried, and even to the sizes in particular lines. The manufacturer's great problem in selling to the chain stores is to create a demand for his product among the public. If any missionary work is to be done by the chains, they do it in behalf of their own products and private brands. Manufacturers' goods must sell themselves.

Grocery stores ordinarily limit the number of sizes of a particular line in stock. Extra large packages are avoided, both because of the difficulty in carrying them and because there is comparatively little demand for them. A customer will usually take two of the smaller size if she desires a considerable quantity.

The Dotson-Kerwin stores, in Iowa, have an ingenious method whereby a stock of odd sizes sufficient for one store is made to do for five, and to secure a large enough turnover of these odd lines to warrant carrying them. The company has five stores: in Waterloo, Independence, Oelwein, Vinton, and Cedar Falls. Although Waterloo is about four times the size of the other towns, all stores are stocked uniformly as to variety and grade. The size of the stock varies, of course, with the demand. "Off sizes," says an article in the *Chicago Apparel Gazette*, "are carried by each store, and each

store keeps a list of odd sizes and patterns carried by the other stores." As the stores are all within a radius of 30 miles, whenever a customer asks for an odd size and it is not in stock, the clerk looks it up in the card file and in a few moments has telephoned and is assuring the customer he can get it that afternoon.

As a general rule, however, chain stores do not and should not attempt to carry anything but standard sizes and lines.

Quality.—It is a peculiarity of human nature that, whatever price is charged for an article, the customer expects good quality. No chain store can afford to sell inferior goods. Like the attitude of the clerk, the quality of the articles offered reacts on sales in all the other stores of the chain. Grocery chains ordinarily make a practice of inspecting all goods at the warehouse and exercising the most careful supervision over standardization of quality under brand names.

Given an equal price range, the customer will patronize the chain which offers the best quality for the price. One of the points which manufacturers have stressed most persistently in their advertising to consumers is the reliable quality of their advertised merchandise. It is this certainty of finding a known quality under a certain name that lends the major part of its strength to the advertised brand. Many chains have built up enviable reputations among their own customers for their own private brands. The chain, as well as the manufacturer, must take every precaution to see that quality conforms to a set standard. A few cases of off-quality merchandise will destroy the effect of years of effort to create the quality idea in the minds of customers. No chain store organization can afford to try experiments with the quality of its products.

Packaged Goods.—Wherever possible, chain stores prefer to sell packaged goods. The grocery chains and the drug chains are the outstanding examples of this tendency. At one time the grocer measured out 10 pounds of sugar and 5 pounds of cornmeal. Now he simply hands over the counter a neat package all done up. Packaged goods are another move towards efficiency; since they eliminate a great deal of time spent in preparing bulk articles for a customer. In many cases, a clerk could wait on two or three customers while measuring and doing up parcels

of bulk articles for one customer. Recently one large chain store grocery did away with all its coffee grinders, confining sales of coffee to packaged goods.

Where chain stores do carry bulk articles, it is wise for the clerks to have standard weights wrapped up and ready in their spare moments, so that no time will be lost in making sales.

There is a feeling among many chains at the present time that manufacturers should go even further than they have done in preparing their products for chain store use. Instead of having them shipped in large cartons, the chains would like to have them in small-carton units, so that the chain warehouse would not have to break packages in making shipments to unit stores. This would admittedly increase the manufacturers' selling costs, and add but one more step in the process of making the retail store merely a transfer station from producer to consumer. Yet, on the other hand, if the manufacturer is to take over the function of demand creation, it is fitting that he should fill the demand in a fashion most suited to the convenience of his major distributors.

It is vastly to the convenience of the chain store to have goods packaged because it reduces the cost of handling. The chain store, in fact, has been one of the principal factors in hastening the process of packaging.

The Market—Outside Factors.—The chain store field, as any other phase of business, is affected by arbitrary external factors, such as the state of prosperity of the country, the natural ebb and flow of seasonal activity, and such daily fluctuations as are caused by weather, or traffic influences.

While chain store systems are subject to the general effects of business prosperity and depressions, yet these effects are unequally distributed in their action, depending on the staple nature of the products handled by the chain, something on the buying policy, and much on the wisdom of the management in foreseeing conditions. The chain store business is preeminently a non-speculative one. It is based on supplying wants which show a minimum of fluctuation. How little business depression may interfere with the growth of a chain is evidenced by the experience of the Woolworth Company, which succeeded in making a profit during the severe depression of 1920 and 1921.

While the profit was smaller than usual, it was one of the few concerns which had no red-ink figures to show for that period.

In the grocery business, also, the volume of business may not fluctuate greatly between periods of prosperity and depression. The character of the demand, however, may change. The major part of the business during hard times will be in items which are strictly necessary.

After a long period of prosperity, many businesses are more or less unfitted for hard times. Such a period normally causes a great increase in the number of retailers, from which the unfit are rapidly eliminated by adversity. It is also advisable to cut down on lines of merchandise which are extremely profitable in periods of prosperity, but will not sell when money becomes scarce.

It is undoubtedly a great temptation to buy ahead on a rising market. However well the lesson seems driven home that price speculation is outside the retailer's legitimate scope of activity, a business crisis always finds a certain number with warehouses and cellars filled with merchandise bought at peak prices, and practically unsalable in a buyers' market at any price.

Seasonal Fluctuations.—Seasonal trends have great effect on chain store activities, as on almost all business. Christmas is a universal stimulant to sales activity. The summer is likely to mark a falling off in most lines. In addition to this, almost every product has seasons during which sales show a tendency to decrease. Seasonal fluctuations are regular in occurrence, differentiating them from periods of prosperity and depression, which alternate irregularly.

Figure 10 illustrates the remarkable regularity in the volume of sales of the F. W. Woolworth Company. The chart immediately shows that each Christmas brings a great peak of business activity. The sales for the month of December are double those for any preceding month, and three times as large as those for January and February. The sales, moreover, show a definite percentage of increase year by year, so that it is possible to forecast with great precision the volume of sales which will take place during any month of the coming year by comparison with sales during past years for that same month.

In addition to the Christmas peak, it is found that a minor rise takes place each year in March or April, which can be attributed to Easter sales. There is a drop in late summer, reflecting vacation times, and thereafter business is fairly good until the



Fig. 10.—Monthly sales of F. W. Woolworth Company, 1918-1924.

Christmas rush suddenly doubles sales. January and February bring the lowest ebb of the year's business. The experience of the Woolworth chain is not unique. The other five-and-ten-cent store chains experience the same seasonal trends.

What is shown so clearly by the Woolworth case can also be plotted for other types of chains. The grocery chain, for example, shows the least seasonal peaks, while drug chains register only Christmas activity. Chain cigar stores and chain dry goods stores have decided seasonal peaks. In the dry goods chains there is a distinct midsummer reaction.

Figure 11 is a composite chart of retail activities averaged over a period of three years. This shows plainly the falling off

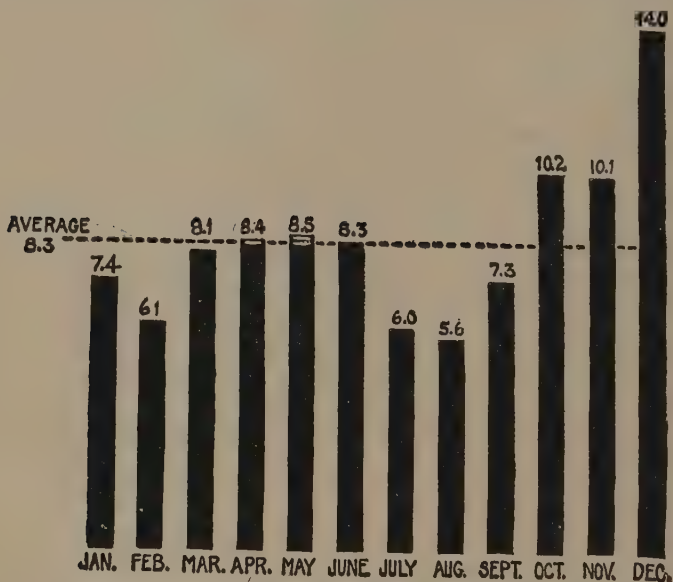


FIG. 11.—How retail sales vary with the seasons (chart prepared by Federal Reserve Bank of New York).

in January and February, the recovery lasting until the end of June, the summer apathy, and the fall rise culminating at Christmas time.

The United Cigar Stores Company has spent a great deal of time and thought on the seasonal problem, and has done much toward distributing its seasonal peaks. For example, its executives realized that in the holiday season the stores would be overcrowded and many sales lost unless some means were taken to spread the sales out over a few weeks prior to the actual event. As it is against the policy of the chain to feature cut-price sales,

unusual offers are made, such as including extra articles for the same price, and these offers are made some time before Christmas.

In January and February tobacco sales are poor. In addition to the post-holiday apathy, there is the fact that smokers do not enjoy smoking out of doors in very cold weather. Also, many are consuming the cigars given them for Christmas. Special sales are, therefore, again resorted to. One year every purchaser of a pipe was given one-half the amount of his purchase in anything in the store. The company figured that these special sales gave enough news value in advertising to pay the actual falling off in profits.

What has been done by this company can also be done elsewhere. With the records of sales for previous years as a basis, some scheme can be worked out for distributing seasonal congestion, and perhaps bringing up sales in off seasons.

Daily Fluctuations.—It is not only possible to forecast monthly sales by a careful study of records, but daily sales as well. Some days in the week are far better for business purposes than others. For example, the Great Atlantic & Pacific Tea Company does half the total business of the company on Fridays and Saturdays. To a great extent the same is true of the five-and-ten-cent store chains. Officials of F. W. Woolworth Company point out that sales on Saturdays are usually \$800,000, or equal to the business of two days during the week.

Daily sales cannot, however, be forecasted with such accuracy as monthly sales, because other factors enter the equation. For example, few people shop in very stormy weather, or very hot or very cold weather. Weather extremes discourage retail sales activity.

Where a chain deals in perishable goods this element of uncertainty is important. According to the sales promotion and advertising manager of the Federal System of Bakeries of America, Inc.:

In any retail bakery business there is always the element of what we have termed "day-old bread." The ideal situation in the Federal Bakery is to sell out the day's output of bread. Certain kinds of pastries can be carried over without losing their flavor or taste and are just as palatable the second day as the first. Practically every Federal

Bakery has an unusually heavy bake Friday nights in order to have a sufficient supply of merchandise salable for Saturday and, hence, it is necessary to carry not only cakes and pastries, but extra bread.

As far as regulating the production of baked goods in Federal shops is concerned, this is left entirely to the judgment of the manager. In the cash-and-carry business it is difficult to judge to the very loaf just how large a quantity should be baked. After all is said and done, the element of production is the one problem in the bakery business that cannot be solved accurately.

A sudden downpour of rain, or an unusually cold or warm day, will have a marked effect on the cash-and-carry business, and managers are at all times on the lookout for these hazardous days. Every manager in the Federal System gets a daily report on the weather and is guided accordingly when ordering his bake. If, for instance, on a Friday night the manager gets a report from the Weather Bureau to the effect that Saturday will be a cold, rainy day, he will cut down his production a little, so as to avoid the possibility of discards.

Although the weather may be the cause of decreasing some sales, the chain drug store which carries umbrellas will find a sudden increase in sales, the chain shoe store will double its sales of rubbers, etc.

The Market Range.—A great deal of research can still be done in regard to determining the distance from which a given chain unit will draw trade. The location will, of course, be the determining factor, but in addition the type of product sold, the advertising program, and the transportation facilities will have their effect.

Necessities, also known as convenience goods, are sold within a limited radius. The average grocery and drug store has a very definitely limited market area, while stores dealing in shopping lines and luxuries have a much broader market range.

The advertising of a chain will have much to do with the range of territory from which it draws. Yet, in the end, the distribution of population is determinant of the extent of the market. The time will probably come when a chain will map out territory adjacent to its stores and from a study of this map and sales figures will draw certain deductions as to the most profitable localities. A grocery chain is primarily interested in

population, as is also a drug chain. A store carrying goods at a fairly high price range would naturally be interested more in the income strata of the district.

The market range may be increased either by extending it geographically by means of advertising, or cultivating it more intensively. Some chains try to increase the amount of goods sold to the individual purchaser. There is either a conscious or an unconscious endeavor to fit the needs of the community and the service rendered by the store together.

National chains have a great many problems due to their broad distribution of store units which do not occur in handling an independent business or even a small local chain. For example, it is quite evident that the tastes of one community will not coincide exactly with the tastes of another, nor can any efforts on the part of clerks offset this community antagonism to particular products. On this point, the standardization policy of the chain must give way and recognize local conditions. This is usually handled by grouping stores in one district under a superintendent who has a certain amount of leeway in handling what stock should be carried.

Finding Out What the Public Wants.—To operate on an efficient basis, the chain should keep in touch at all times with the changing wants and needs of the public. There are a number of ways in which this may be done. The simplest and most obvious method is to study the sales records in order to see which articles are selling best. For example, by means of such study a grocery chain noticed that sales of black tea were increasing rapidly, while green tea was falling off markedly. Several lines of green tea were immediately dropped and the black tea pushed. The result was that in three months sales of black tea were exactly doubled.

In a metropolitan drug chain, it is often desired to find out whether customers' wants are being filled. One drug chain had everything which customers asked for but which were not in stock, noted down in a want book. These wants were found to range all the way from hair nets to piano strings. In this way was added to the regular stock such widely different articles as tennis and golf supplies, fishing tackle, baseball goods, bathing suits, fountain pens, alarm clocks, and scissors. This heterogeneous collection

of merchandise sold because for some reason or other the public thought the drug store was a good place in which to buy it.

One of the best methods of determining whether an article possesses the requisite qualities which would entitle it to a place in the regular stock is to test it out in a single store, or, perhaps, a group of stores. Suggestions for the sales force should be encouraged, as often they contain valuable information of profit to the chain.

CHAPTER X

PRICING AND TURNOVER

Profits in chain store retailing are largely determined by the selling price and the rate of turnover. In the careful adjustment of these two factors lies one of the secrets of chain store success.

The price at which a product can be sold is or should be determined automatically by:

1. The purchase price paid by the chain.
2. The share of overhead expense.
3. The share of selling expense.

It is evident, therefore, that a low selling price can be reached only by:

1. Economical purchasing.
2. Minimum overhead expenses.
3. Efficient retail store management and accounting.

But the rate of turnover exercises a modifying influence on all the above factors. By "turnover" is meant stock turnover, that is, the number of times the money invested in merchandise is liquidated and reinvested during a year. Obviously, the larger the turnover the more profits and, consequently, the lower the selling price which can be set.

A large turnover is secured by:

1. Careful purchasing of goods and products that will sell readily.
2. An efficient merchandising policy.
3. The cooperation of the personnel.
4. A careful inventory system.

A large turnover, however, will not bring large profits unless the selling price is high enough to carry the overhead and other charges against it. Thus, in a cut-price war, an enormous turnover may bring enormous losses. But it is obvious that the larger the turnover the less profit it is necessary to make on each sale to obtain an aggregate profit satisfactory to everyone.

The Theory of Pricing.—In the old days, and even now in those districts to which the chain has not penetrated, the custom is to mark goods more or less empirically, or, in other words, according to "what the traffic will bear." It is a strange fact, but none the less true, that benighted retailers in some districts will actually mark up a product to a point higher than the resale price printed by the manufacturer on the package. This is a practice which can never be found in chain store systems.

From the point of view of an economist, price is a factor in the adjustment of supply and demand. When the supply is abundant, the price tends to become lower, and when the supply becomes restricted, the price tends up again. From the retailer's point of view a great many practical factors enter in. He wants, in the first place, to make a profit, which means selling the product for more than he paid for it plus the cost of doing business. But he must keep an eye on his competitors all the time. This is especially important for the average chain which deals in staple articles mainly, and where a difference of a few cents in price between two competing stores in the same neighborhood would make considerable difference.

Another factor in pricing is the manufacturer's resale price. On nationally advertised goods the retailer's margin of profit is often less, and the natural tendency of the retailer is to look for another product of the same quality which will net a little more to him. He will use the manufacturer's product as a loss leader, thus capitalizing the demand created by the manufacturer for his own purposes. It is customary in most chains to price somewhat under the manufacturer's price.

Mark-up.—Mark-up is the amount added to the cost of merchandise to cover operating expenses and a profit. The margin of mark-up determining the gross profit should be figured on the selling price according to best retail practice. Independent retailers have often confused mark-up with gross profit, the latter being the difference between the cost of the goods sold and the mark-up price obtained.

Nor does 25 per cent added to the cost of an article mean 25 per cent gross profit. If a store pays \$1 for an article and sells it for \$1.25, the store is not making 25 per cent gross profit, but only 20 per cent. To find the profit actually made on an article,

it is only necessary to take the difference between the cost and the retail price and divide by the retail price. In other words, in the case just quoted, the 25 cents is divided by \$1.25. To make a 20 per cent profit, it is necessary to add 25 per cent to the cost.

In making up the price it is always essential to remember that three factors must be included:

1. The cost of the product to the chain.
2. The cost of selling and overhead expenses.
3. The margin of profit desired.

Goods may be charged to retail stores at either wholesale or retail prices. In the majority of cases goods are charged at retail, so that the member store will have but one price to consider, and that price the one at which the goods are to be sold to customers. It also simplifies accounting methods.

Where a chain conducts a wholesale business or sells to agencies, it frequently bills goods to its own stores at wholesale prices. If they were to bill their goods to their own store at retail prices and to agencies at wholesale prices, it would mean maintaining two systems, and would cause much confusion.

Several methods of retail pricing are in vogue:

1. The logical and ordinary method of fixing the price of all goods at a certain percentage over the purchase price and the overhead and selling expenses.

2. Maintaining prices according to the first system, but each week running a list of loss leaders at cost or fractional profit.

3. Selling at competitor's prices, or below them, a practice which leads to cut-price wars and the elimination of the weakest competitors.

Where operating and selling expenses are standardized down to the last degree, there is not much difference in the price at which the various chains can afford to sell the majority of their products. Some merchandising expedient, some quirk of efficiency, may pull them ahead for a moment, but the rest of the field gradually draws abreast again, since chain competition is essentially a competition of price.

The Price Range.—Chain stores normally concentrate on staple, low, and medium-priced merchandise, as mentioned before, because it is in this class of products that the largest

turnover is obtainable, and these products are sold to classes of people to whom the price of an article makes a great deal of difference. The World War brought a great many changes into the chain store field. Before that time, when biscuits, chewing gum, cigars, hats, shirts, and innumerable articles could be featured at a standard price, it gave chain shops something upon which to build a reputation. A dollar watch, or a dollar shirt, or a five-cent cigar, was a major sales point.

The major economic upheaval during and after the war upset the standard price. Nowhere was this more evident than in the five-and-ten-cent store field. For some time previous to the war, the merchandise assortment of the five-and-ten-cent stores had begun to narrow. The days when Butler Brothers had been able to offer more than 120,000 articles to be retailed at 5 and 10 cents were past. When the war came, it caused a break-away from the old, 5-, 10-, 25-cent limit. Most variety chains found they could not offer a large enough assortment to get the required turnover. Woolworth clung to the old policy by decreasing the units. The size was made smaller—less candy was sold for 10 cents; matches which had been 1 cent a box were 5 cents; things were sold separately, one stocking for 10 cents, the pail 10 cents and the cover 10. To the amazement of its competitors and the public, the Woolworth chain was able to come through without changing its traditional 10-cent limit.

It still maintains the same price limits of 5 and 10 cents, meeting the inevitable changes in buying costs and absorbing them before the public is reached. As soon as demand grows heavy enough, it is often possible to increase the quality or the size. Aluminum kitchen ware, for example, was bought occasionally in job lots whenever the chance came, but as soon as the volume became great enough, it was put on the regular list. Examples of what the Woolworth Company has been able to do in making merchandise conform to its arbitrary price limit are numberless. It sold, for example, numberless golf balls of a standard brand for ten cents, which manufacturers had been practically unanimous in saying could not be produced to sell at less than 75 cents. In order to ensure sources of supply, the Woolworth Company has made long-term contracts on staple articles for which demand is fairly constant.

While the first requisite for any product in the five-and-ten-cent price limit is volume, after a certain volume has been attained the question of quality becomes paramount. That the Woolworth Company has been able to better the quality of its offerings steadily speaks highly for the management of the company. Practically all chains that once were in the five-and-ten-cent class have now broken away and show no tendency to revert to the old price limit. While keeping lower-priced lines as intact as possible, the variety of stock has been increased. It was known that sales for less than \$1 predominate in any department store, and the Kresge chain acted on that knowledge with great success. Tinware, crockery, and household lines gave way to dry goods, with a tendency, however, to keep away from piece goods as much as possible.

Most variety chains have a nominal dollar limit, although this is usually higher in such departments as millinery. A few chains have as high as a five-dollar limit. In practically every case there is a fixed price limit, even though this may not have the appeal of the Woolworth slogan "Nothing over 10 cents." One of the chains which has set itself a five-dollar limit did this with the object of getting out of a field where the chain store was already well established and of competing with the department store. It has been found that 60 per cent of sales fall within the one-dollar to five-dollar range. Turnover is necessarily slowed up, and mark-downs become a greater factor. But the mere fact that chains are entering this hitherto neglected field shows that the department stores are becoming increasingly vulnerable to competition.

Standardized Prices.—Generally, the prices of goods in all stores in one chain are standardized, except that some chains make a difference for stores west of the Mississippi. The United Cigar Stores have only one price, and this price is the same for one cigar or a hundred of the same brand.

Managers may be allowed to make their own prices on local purchases. One grocery chain management says:

All our prices are standardized throughout the chain. The only exception to this rule is in green vegetables, dried meats, cottage cheese, and other items which each store manager buys for himself and on which he bases his own prices. A store three miles away from the

markets naturally is entitled to a little longer price on lettuce and celery than a store downtown which can restock its green-goods counter at any time during the day. Also, in the three-mile-away store, the manager runs a larger risk of not selling out all his vegetables. He has to add enough margin of profit to insure himself against loss.

Price Cutting.—The question of cutting prices is a matter of individual policy. Some chains never cut, but they are probably in the minority. The Penney practice has always been to put the price on an article and not to mark it down. The American Stores Company and most of the grocery chains cut prices on goods when it is deemed sound merchandising policy to do so.

The National Chain Store Grocers' Association has put itself on record as being opposed to price cutting as a means of driving a competitor out of business. This is no more than a recognition of the fact that price-cutting wars are beneficial to none concerned in them. Yet these price wars do occur, although not so frequently as they did earlier in chain store development.

The case of the Owl Drug Company and E. R. Squibb & Sons aroused keen interest. The former is the second largest drug chain; the latter is one of the best known manufacturers in the drug field and a company which has gone as far as possible towards maintaining its resale prices in the retail field, while still remaining within the law. The Owl Drug Company's grievance grew out of the refusal of the manufacturer to grant it its lowest price unless, first, it agreed to buy a given quantity, and, second, agreed to give Squibb products the preference over competitive items. The chain, therefore, discontinued buying Squibb products direct, but obtained supplies from middlemen and cut the price on them far below the regular resale price, which, by the way, had been generally observed by both chains and independents. The manufacturer's answer to this was to instruct other dealers to meet the Owl price cuts, guaranteeing them their regular profit. It further claimed that the price-cutting Owl chain was leading ". . . to the un-American and undemocratic creation of a monopoly, which, if allowed to grow unrestrained, will exterminate, first, the independent retail druggist, second, the wholesaler, and third, the independent manufacturer who is not willing to become the tool of this price-cutting chain and ultimately its servant."

The situation here was brought on directly by the efforts of the manufacturer to attach strings to the sale of his product, and the chain believes that it is amply justified by the price war which it conducted.

Turnover.—How many times must merchandise be turned to make a profit? If this question could be answered specifically, much worry would be saved retailers. But, as a matter of fact, turnover differs widely. It is generally larger in the chain store than in the independent store, and larger in the grocery, tobacco, and drug chains than in the dry goods and “five and tens.”

Just what is meant by turnover? Ordinarily speaking, turnover, to the manager of a chain store, means the number of times the money invested in stock can be liquidated and reinvested during the year.

Mr. Swanton, of the Winchester Stores, says:

One of the common mistakes in figuring turnover is this—you will hear many merchants say: “My sales are \$200,000 this year. My inventory is \$50,000. I have turned over four times, because \$200,000 is four times my inventory figures.” Turnover must be figured as the cost of goods sold to the cost value of inventory. Take the case just quoted. If this merchant should sell \$200,000 worth of merchandise in all departments of his business and his average mark-up was 57 per cent, his cost of goods sold would be \$200,000, less mark-up figure, which would be \$127,000. This amount, divided by his average inventory, say \$50,000 would equal two and one-half times turnover and not four times turnover.

The value of turnover analysis to the chain is that it keeps a constant check on the articles which show profit and those which do not. The great secret of success in chain stores is to keep the stock turning, to keep every line selling, and to make a profit on every line. A chain would rather be out of a certain product, and permit the customer to go somewhere else, than to carry it if it is losing money. This explains, according to F. J. Arkins, of the Alexander Hamilton Institute, the reason why, in order not to lose money, as soon as it is discovered that a particular line is moving too slowly, prices are reduced and bargains featured. If the first reduction in price does not attract attention, the reductions continue until a market is found for the articles. The whole effort is to move that particular line out

of stock as rapidly as possible, and, if it is necessary to take a loss, to get the loss behind the chain at the earliest possible moment. The idea is not new or untried. It was a principle established by A. T. Stewart, in the merchandising of dry goods in New York, in the early part of the last century.

It was the strict pursuance of this policy of keeping up turnover that allowed the great majority of chain organizations to liquidate without the enormous losses which many retailers experienced in the post-war deflationary period through holding on to their stocks rather than cutting prices before it was too late. It has been pointed out that the independent store runs certain dangers in following too closely the turnover policy of the chain. He has been educated to think that a rapid rate of turnover is his only chance to compete with the chain. In his case, however, it often happens that slow-moving items carry enough profit margin to make up for their slow rate of turnover. For the independent store too limited an assortment of merchandise is likely to cut deeply into sales volume.

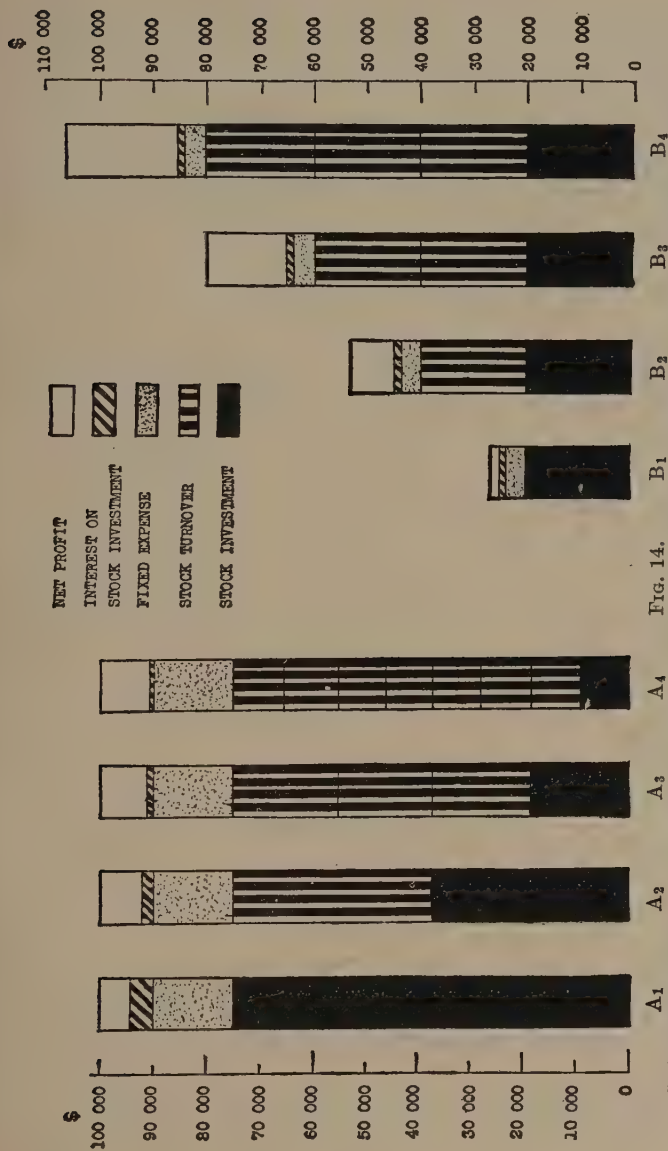
Analysis of Turnover.—A slow turnover involves waste and expense. In some cases the damage is apparent at first sight, but in others it lies deeper and must be analyzed. The Chamber of Commerce of the United States has divided the elements of waste due to slow turnover into the following classes:

1. Investment.
2. Interest.
3. Mark-down.
4. Salaries and wages.
5. Shelf or storage room.
6. Prestige and reputation.
7. Inefficiency.

Taking them up individually:

1. The amount of goods in stock and the amount of time these goods must be carried before they are sold determine the profit, assuming mark-up is the same. Naturally, the more frequent the turnover the larger the profit on the same investment.

2. As few chain stores are borrowers, the interest charges would rarely enter the turnover equation. With many independent retailers, however, interest becomes of great importance.



Series A is based on a given period and shows how the investment and interest grow less while the profit increases.

Fig. 12. (Chamber of Commerce of the United States.)

Fig. 14.

Series B is based on a given investment so that the interest also remains the same although the profit increases.

Fig. 12.

3. The necessity of marking goods down is ordinarily a sign of poor turnover, which, in turn, might have been due to overbuying, too high a price, or lack of demand.

4. Naturally, sales expense is increased with slow turnovers, since the same sales force, more efficiently managed, could sell in six months what actually sells in a year.

5. Shelf or storage room is too valuable to be taken up by slow-moving goods.

6. The reputation of the store suffers if it is known to have a large stock of old goods.

7. Overbuying is ordinarily a dangerous policy. Except when there are extraordinary conditions, fresh supplies can be obtained at short notice; but an oversupply of goods cannot be so easily disposed of. Hence, the whole chain of evils arising from slow turnover will occur.

Figure 12 shows graphically two ways of illustrating the profits due to more frequent turnovers:

Each of the columns in series A represents sales amounting to \$100,000, but the number of turnovers increases from 1 in A-1 to 8 in A-4, and it will be observed that, with each increase in turnover, the stock investment as well as the interest are cut in two, while the amount of profit increases.

Series B shows uniform stock investments and costs of interest throughout, while the amount of profit increases with the number of turnovers.

Series A proves the decreased investment needed to perform a given amount of business, while Series B proves the increased business and profits which accrue to the same investment upon a multiplied turnover.

Increasing Turnover.—It is possible to increase stock turnover in two ways:

1. Sales may be increased while the amount of stock remains practically the same or increases at a rate below that at which sales are increasing. This method is the ordinary one and is perfectly safe, since it is based on sound merchandising principles.

2. The second method is to cut the price. As one authority on the subject points out, by reducing the price more people are included in the group of purchasers, since more people are able to purchase an article at \$1 than at \$2.

Price cutting, however, is a dangerous operation. If everybody cuts prices, total sales may not be appreciably increased, while profits will fall off dangerously.

Price cutting of staples rarely does any good except as a loss leader. People buy staples—sugar, flour, coal—even though the price is high, and a reduction in price will not increase their consumption proportionately. Some merchants keep close track of sales on these non-profit items, such as sugar. In a California chain, the average proportion of sugar sales to gross sales is 10 per cent. If one of the stores shows sales of 12, 15 or even 18 per cent there is manifestly something wrong. That is, sales are not merely dollars and cents. If two stores each sell \$1,000 worth of goods, it is quite possible for one to earn a great deal more than the other, given the same overhead. One store may sell too large a proportion of non-profit staples.

Staples are essentially inert. The profit comes in selling articles for which demand is not steady, but can be created. The most reliable business is that which is neither too elastic nor too inelastic, and it is precisely this class of goods in which the chain store deals.

Rate of Turnover.—There is no standard rate of turnover. That for each store is slightly different, and some stores, even in the same chain, vary a great deal. The turnover may vary with the different years, the stock carried, or the local manager. Some of the Penney stores turn their stock ten times a year, but the average is between four and six. Some of the United Cigar stores are said to turn their stocks fifty times a year. A five-and-ten-cent store must secure at least six turnovers a year to be successful, and the large chains do better than this.

Figure 13 shows minimum turnovers for some types of goods, the jewelry turnover being so low that no chains have ever been organized successfully in this field. These figures should be taken as the approximate rate of turnover only, in any of these fields. They are intended merely to give some comparative idea of turnovers in the various lines.

Coming to turnover in a particular line of business, it is found that articles generally have a relation to each other in rate of sales, and that these can be computed with fair accuracy.

One of the large drug chains, for example, has set certain turnover requirements:

Soda.....	52
Candy.....	20
Cigars.....	15
Merchandise.....	8
Total turnover.....	10

It endeavors to keep the store managers constantly alive to their stock-turnover proposition and to make them see how important it is that, when the inventory is taken, it should closely agree with the yearly turnover desired.

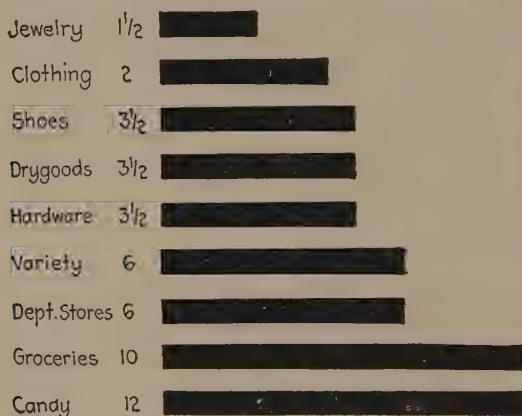


FIG. 13.—Average turnover in various lines of merchandise.

Turnover is especially necessary in candy and cigars, because proper turnover in those lines has a large influence on sales. People like candy and cigars fresh. Patent medicines allow a more rapid turnover than drugs. Rubber goods need exceptional care, since although overbuying is harmful, underbuying and lost sales are even more harmful to the gross profit average because goods of this nature bring an exceptionally good return. The Liggett chain tries to steer a middle course and not lose sight of the fact that annual turnover in the store must show ten times or better. Toilet articles, perfumes, and novelties more often defeat plans for a proper turnover than any other class of drug merchandise. Managers are cautioned to use extreme care in stocking these lines.

According to Mr. Beckmann, of the National Chain Store Grocery Association, the turnover figures in grocery lines are startling in their differences. The average retail grocer turns his goods perhaps twelve times a year, while the chain store turns them from thirty-six to fifty times, according to actual record. The wholesaling end of the chain store—that is, the department analogous to the grocery jobber—shows a turnover of from fourteen to eighteen times, while the turnover of the ordinary wholesale grocer is from six to eight times.

Securing Turnover in All Lines.—The average independent retailers constantly bring down their turnover averages because of the large amount of goods on their shelves which either do not sell at all, or sell so rarely as to make it unprofitable to carry them.

Chain stores go on the principle that all goods carried must sell. If reductions in price do not dispose of them, the chain makes use of its distribution and concentrates the articles where they do sell. Some store in the chain can generally be found which will sell a product which no inducement to the public can move from another store in the chain.

If a drop in price is known to be coming, or because it is near the end of the season, chain groceries hold off from purchasing, and transfer goods from the stores that cannot sell them to the stores that can. In this way they make sure that no “shelf warmers” will be in the way at any store when the anticipated change takes place.

To stimulate the store manager, quotas are often made from the records at the central office and sent out to him, showing what his total sales for the month should be and perhaps indicating turnover in various lines. Thus the store manager knows at all times exactly where he stands and whether he is improving or running behind previous averages. The merchandise turnover of the chain as a whole depends more or less on the purchasing policy, but in many chains the store manager has it in his power to regulate turnover to a great extent. That is, he selects from the lists sent him those articles he can sell.

The United Cigar Stores Company ships its stores every week a quota of supplies which must be sold. Turnover is especially important in seasonal goods and style lines. Failure to turn these goods promptly may change profits into losses.

The First National Stores of Boston have taken particular care in reducing stock to a number of items which will ensure turnover in all of them. When this chain was first formed from three New England chains, it was found that if all items were kept, they would come to a total of 1,500. This total was cut down to 600, which was accomplished by getting the consumption records and dropping all products that did not sell, such as bird gravel, and concentrating on a few brands in one product. It was found, for example, that the chain's private brand of catsup in the pint size outsold the pint size of a nationally advertised brand, and the latter was accordingly dropped.

This chain believes each store should carry no more than a supply of stock sufficient to last two and one half weeks, with a delivery of stock each week. It is figured that if a store sells \$1,000 a week, and has a stock of \$2,500, then the stock should be down to \$1,500 by delivery day. Large stores are given an obligatory list from which they must order in full cases. Certain smaller stores are allowed to drop from their lists certain items, such as boneless chicken and fancy olives, if there is no call for them.

Daley's Incorporated, of Los Angeles, carries as many as 1,200 articles on the shelves of its stores. Before any new article is added, it is tried out in a half dozen stores or so to see whether it sells at a fast enough rate to warrant stocking throughout the chain.

Turnover and Business Conditions.—It is difficult to resist the temptation of purchasing in advance of a rising market. Yet time and again the soundness of the principle of selling at cost plus has been demonstrated, and the folly of purchasing far in advance of actual requirements. Sharp lifts in price may be met by a grumbling purchaser but the chain stores consistently build up a background of goodwill by their price policy until the public feels confident that it is not being cheated.

As an example of the soundness of chain policies, the prices of merchandise in the United States declined from 25 to 40 per cent in the United States during 1921, while the value of sales in the chain grocery stores declined only 16 per cent. This shows that actual sales volume must have increased. But, as groceries belonging to chains deal mainly in staple articles, the increased

turnover must have taken place directly at the expense of independent grocers whose hold on the goodwill of the public was not strong enough to withstand a period of depression.

Charles E. Merrill, of Merrill, Lynch & Company, a banking firm which has financed many of the large chain systems, says:

During the first half of 1921, the decrease in sales prices was so rapid that the problem was to take in enough for operating expenses. This was accomplished by great economies. As a result, the chain stores are making more money than they were a year ago when high prices prevailed.

The price declines in the five-and-ten-cent stores have been nearly as drastic as in the grocery stores. By an increase in the rapidity of turnover, however, the five-and-ten-cent chains have been able to side-step losses which occurred to others during the price decline.

The remarkable point about this situation is that, by increasing turnover in a period of unprecedented deflation, chains like Woolworth and Kresge were able to make as much money as in previous years. It illustrates forcefully the practical advantages of turnover and the irresistible attraction of price as a basis of competition in hard times.

Conclusions.—"Small profits on an article will become big if you sell enough of the article" was one of Frank W. Woolworth's maxims. In these few words he summed up the principles of pricing and turnover. The chain of stores which he founded has steadily carried out the policy which he commenced, and was the only chain to remain proof against the difficult problems which had to be met in the period of war and in the postwar deflation.

It is only necessary to add to the above statement that turnover must be distributed among all the stock and the fundamental statement is complete. One of the greatest, if not the greatest, reasons for the chain store's preeminence in the retail field is the careful observance of this policy of pricing and turnover. In a way, the necessity of securing turnover insures a reasonable price to the consumer, but it is only by the proper correlation of these two factors that the most efficient results are obtained.

CHAPTER XI

SALES PROMOTION

The object of every chain is to increase the sales per unit store. With increasing competition, the function of promoting sales takes on vastly added importance. Practically every chain resorts to special methods, beyond the regular routine sales methods in every-day use, to stimulate sales activity. It is these special methods which form the subject matter of this chapter.

Pressure may be applied in a number of ways:

1. An attempt may be made to increase volume by adding outside items to the regular line. Drug chains, for example, add such items as groceries, notions, and even hardware. Chain cigar stores have added certain items ordinarily found in drug stores. This is a perfectly normal tendency, but also one which is obviously limited, and outside the regular field of sales promotion.

2. Special merchandising effort may be employed to increase sales by various forms of stimulation. Advertising and display are used to the full extent of their effectiveness in promoting special sales of all kinds which will tickle the jaded consumer palate. Less sensational, but none the less effective, are the more or less periodic price reductions on weekly specials or "loss leaders."

3. The organization, by means of contests, or special rewards, or pressure of some sort, may be spurred to greater efforts.

The best results are naturally obtained when product, personnel, and publicity are combined in an offensive upon the consumer's normal sales resistance. Since, all chains are working towards this same end, however, and since no one of them has a monopoly of merchandising imagination, the field of sales promotion offers almost unlimited opportunity.

Price as a Sales Appeal.—"All people want to make a good bargain. Let them!", said Frank W. Woolworth. Price is the corner stone about which the majority of merchandising policies are necessarily founded. It is well enough to emphasize the non-price features of merchandising, if it is remembered that, however it may be concealed, price still remains the constant factor. Quality and service are important but they do not have that popular appeal which is offered by a price reduction. It is not without reason that the majority of chains make it a cardinal rule to have all merchandise on display accompanied with price cards.

Many chains have a fixed policy of featuring each week a so-called selection of "loss leaders," that is, some well-known article, the price of which is usually standard and known to the majority of purchasers, is put on sale at actual cost to the chain, or even at a slight loss. This is done on the theory, which works out in practice, that people will be attracted to this bargain and will buy other goods as well. Loss leaders are also known as *weekly specials*.

Many chains have come to the conclusion that loss leaders will not of their own accord push up sales. Competition is now too keen and prices quoted by one chain will be met by its competitor without difficulty. Price remains the basic factor, but other methods must be adopted to bring in the added sales volume. No store or chain has a monopoly on loss leaders, and what one chain can do another can do also. Too much price cutting will benefit neither store.

Lowering the price level does not always result in added sales volume, as is evidenced by the experience of the MacDiarmid Candy Company with headquarters in Detroit, Mich. In 1924, when the company was getting 75 cents a pound for most of its candy, it was felt that if the price was cut, the volume would be increased sufficiently to cover not only the price cut, but also to add to the net profits of the chain. Accordingly, the price was cut to 60 cents. For the first three months, volume was vastly increased and then it began to go down. At the end of six months, the volume was about where it had been before the price was cut, and thereafter it began to go down. The price was then raised to 70 cents, and the volume of sales began to

climb again, until the old volume was attained and passed. The company explains this phenomenon as follows:¹

Volume was originally swelled by purchases of bargain hunters, while the chain's regular customers kept up their purchases. Soon, however, the impression became current that by the price reduction something had been lost in the quality of the merchandise, and also something was lacking in the service. Customers who bought candy to give away did not want to buy a product which was known as "cheap." Candy is a quality product where the price level is extremely important.

Featuring Specials.—It is obvious, after a little thought, that the greater part of any increase in sales of a store must come about at the expense of competitors. Price alone, therefore, will not be sufficient to obtain permanent trade. Chains have developed varying systems in regard to "pushing" certain goods. Most of these resemble each other. Practically all agree that the number of items to be featured should be few in number, because the sales effort must not be too spread out. The Sheffield Farms Company considers that there are eight elements in a special drive: The product must be:—

1. Featured in newspaper advertising.
2. Printed on window slips.
3. Attractively displayed in the window trim.
4. Shown on the counter.
5. Described in circulars.
6. Priced on the list hanging behind the counter.
7. Displayed prominently on the shelf.
8. Pushed by the store manager. This last point is considered the most important of all. Managers are informed each week what article is to be featured. Manufacturers' salesmen are not allowed to visit the stores.

Figure 14 shows the front page of a four-page circular used by the company, on which one of the "specials" is featured.

Some chains spend much attention on picking out the specials which are to be featured. In Faxon's Thrift Grocery Stores, Inc., of Buffalo, N. Y., a complete condensed report for the past month, of sales of all items carried, is submitted to the management. This is a printed form, with the various items

¹ *Chain Store Age*, March, 1927.

Sheffield Farms Stores

Week of June 14th, 1926

Nearest Store

Chocolate

is a most popular flavor.

In Loft Chocolate Malted Milk this flavor is at its delicious best. The name means just what it says - - - it is made from fresh, pure, **WHOLE Milk**, that's why it is so healthful.

Children prefer it - - - and it makes them drink more milk.

Lofts

CHOCOLATE MALTED MILK

Half Pound Can

25^c

One Pound Can

48^c

FIG. 14.—Front-page of a four-page circular used by Sheffield Farms. Items which are being "pushed" are featured conspicuously in this circular.

arranged according to classes. From a study of these statistics items are picked out for sales emphasis. Each item must fill seven requirements:

1. Large margin of profit.
2. Minimum of sales resistance.
3. Command interest of sales force.
4. Volume possibilities.
5. Must not hurt other profitable items.
6. Must develop repeat business.
7. Must increase chain's goodwill.

Only items of standard quality and standard brands, often nationally advertised, are chosen. No odd lots are picked.

Advance Preparation for Special Sales Effort.—Often the most important factor in the success of special sales effort lies in the advance preparation. There are two parts in this preparation; the first is to prepare the sales force for the part it is to play; the second is to inform the public through advertising of various kinds. This second factor is a question of advertising technique. The most important point is to secure the cooperation of the whole organization behind the selling effort.

Some chains make special cash incentives to store managers. Faxon's Thrift Stores, mentioned above, believes normal prices should be maintained on specials, the store managers and supervisors being given the special benefits of his endeavors. During the first week of each month a meeting of store managers is held, at which cash incentives are offered. At each meeting specials are announced for five weeks in advance. Stores are divided into two groups, according to the type of market to which each store caters. In poor neighborhoods, for example, canned asparagus does not sell. Each supervisor has 20 stores under his management, divided into two groups as explained.

A typical layout for a five-week schedule of specials might be as follows:

First week, quality brand of canned corn, upon which supervisor allowance is 1 cent per can.

Second week, jars of strawberry and of raspberry preserves, allowance of 2 cents per jar.

Third week, cartons of a nationally advertised brand of matches, allowance of 1 cent per carton.

Fourth week, quality canned asparagus, allowance 2 cents per can.

Fifth week, relishes of certain brands, allowance 3 cents per unit. Every alternate week it is expected that the allowance will amount to a considerable sum. The store manager having the highest sales score for the week's specialty in each group takes all the money, which is paid in cash at the monthly meetings.

In staging a highly successful sale, Von's, Inc., of Los Angeles, printed instructions to managers on the large sheet illustrated in Fig. 15 and sent out extra copies three weeks in advance to all stores. It was found that if a single letter of instruction was sent to the manager he was likely to read it once and then forget it.

It is just as important to secure the cooperation of the selling force in drug stores and department stores as in grocery stores. Much attention has been paid to this by the Renfro Drug Company. Weekly meetings of store managers are held at which sales-promotion plans for the coming week are thoroughly discussed. Then the store manager assembles his own sales force and goes over the merchandise to be featured point by point, explaining talking points and the best method of presentation to customers. The greatest emphasis is put on the necessity of not trying to substitute one of these special items for something asked for by the customer. This is not always an easy matter, as the store has the Rexall agency, and pays a 5 per cent commission on "own goods" except during the four major sales, when Rexall products are given the center of attention.

Special Sales.—It is the opinion of some chains that special sales are mainly the result of poor merchandising; others believe special sales of one sort and another to be one of the most effective methods of sales promotion. It is advisable, if special sales are used, to make certain that merchandise values are really bargains. It has been claimed that 90 per cent, or more, of merchandise advertised at special prices is marked as high or higher than regular prices. The result has been customer dissatisfaction, and confidence in the store has been shaken.

The object of the sale is important. The special sale has become such a common merchandising expedient in recent years that a successful sale requires a definite objective and careful

Store Managers LOOK!!

*Something New
Something Different*

An Unusual Sale

VONS A-B-C-SALE

Entire week of September 27th to October 2nd Inclusive

Here we go with an honest-to-goodness advertising campaign for one solid week. We are going to sell more groceries during this A B C Sale than we ever have in any one week before.

We are working out a different plan, organizing a campaign that will tell every one of your customers about this sale a week before it comes. Tell them about it during that week and while they are in your stores we will show them.

Here's the first: when our plans and various forms of advertising matter and bulletins reach you, study them carefully and follow them out because we want every man to punch this sale at the same time. Concentrated effort will push mountains over and will also make this the greatest sale in all Vons history.

Here are some of the things we have planned:

PACKAGE INSERTS. A slip of paper, 4 x 8, telling all about this sale will be given with each sale made in our stores the entire week before the sale. A bundle of these will be in your store in plenty of time.

DISPLAY POSTERS. 17 x 22 inches, white cards, with big blue letters: "Vons A B C Sale, All This Week, September 27th to October 2nd inclusive." There will be two of these for each store.

DISPLAY CARDS, 6 x 9, white cards with dark blue ink. A set of 8 different cards, carrying 8 of the best items will be furnished to be put on your floor and counter displays.

A B C STRING HANGERS. When you get this set of cards you will find a set of 7 cards, each a different color and printed to resemble blocks. The seven cards make the words, A B C SALE. You will see two holes on the top of each card. Arrange them to read properly, and then weave a long string in and out of the holes, and fasten the two ends, one at each side of the store so that the banner of cards will dangle in the air.

VONS NEWS. The issue to be delivered September 20th will carry one-third of the front page telling of the sale. The issue to be delivered September 27th will be full of it. On the inside you will find goods advertised at especially attractive prices, each item under its own letter in the alphabet.

DISPLAY VONS NEWS in your store. When the issue of the sale is delivered, take a few of them and paste them flat on cardboard and post them in various conspicuous parts of your store.

THE CHILDREN'S PART. To each child under 15 years of age who buys 50c or more worth of merchandise in your store during the last three days of the sale—Thursday, Friday and Saturday—give a small package of P. C. B. Animal Crackers free. Also, to the child who is accompanied by his Mother who buys not less than 50c worth of groceries. This is a little stunt that will not only please the kiddies but the older folks as well.

Don't forget the children of today are the shoppers of tomorrow.

Tell the meat man and fruit and vegetable man of your store what we are going to do, so that they may be fixing up some hot specials for the same week. Make your entire store a busy one. Have each and every department in line with the sale. Let every customer, and you will get a lot of new ones, know that VONS sales organization is one of the finest in the country.

Let us have your suggestions. They are good and we need them.

Order enough stock to meet the demand and to make attractive displays that cannot help but be seen by every customer who enters your store.

Let's have every store working like every other. Let's work together, for the biggest week in VONS existence

Let's Go.

Fig. 15.—Explicit introductions sent to the stores early enough and repeated at intervals helped to make this sale the record-breaker it proved.

advance planning. While a special sale is ordinarily successful in moving old stock, it should not, as a rule, be employed entirely for this purpose.

Before putting on a special sale of any kind, that is, a sale which affects a much larger proportion of the stock than the sales specials hitherto referred to in this chapter, care must be taken to see that the following preparations have been taken care of:

1. Enough merchandise should be in stock to take care of the increased demand.
2. Extra sales help should be arranged for if necessary.
3. Any extra equipment required must be procured in advance.
4. Advertising should be placed well in advance.
5. All display facilities of the store, outside and inside, should be devoted to the articles of merchandise featured during the special sale.

There are a number of types of special sales which may be used:

1. The clearance sale, ordinarily occurring at the end of the normal selling season.
2. The seasonal sale, occurring at the time demand is greatest and sales resistance supposedly least.
3. The out-of-season sale, designed to promote demand at a time when it has normally fallen off.
4. The one-cent sale.
5. The anniversary sale, or other sale taking place without definite reason from a merchandising viewpoint beyond that of increasing sales.
6. Sales at the opening of new store units.

Clearance and Seasonal Sales.—Generally speaking, the chain stores make much less use of the season as an excuse for staging special sales than do independent organizations. The reasons are obvious. The chain store, with its larger turnover, its more efficient purchasing organization, and its wider distribution, is able to sell its goods as they come in. Chains, like Penney, which make a rule never to buy ahead, naturally do not have to have seasonal cut-price sales.

Grocery chains often have canned-goods sales to clear out old stocks ready for the new pack. Similarly, chain shoe stores, like other shoe stores, will have a midsummer sale of oxfords.

Where clearance sales are made periodic occurrences, customers will often wait until these sales take place. The chain must decide whether this is desirable from the standpoint of its own business.

As a rule, it is easier to sell articles at times when the demand is greatest, and consequently it is general practice for stores to feature articles suitable to the season. Christmas is probably the greatest occasion for intensive sales effort of any period in the year.

It is rarely that out-of-season items are selected for special sales efforts. Sometimes, however, they prove successful. For example, the United Stores Company, a Piggly Wiggly agency, featured flour during the summer, normally an off season, by means of a naming contest, during which more than 10,000 names were submitted.

The One-cent Sale.—Drug and grocery chains have made considerable use of the one-cent sale to increase business. The ordinary method is to choose articles on which the store makes a long profit, and make announcement that on the day of the sale customers may obtain two of an article by paying an extra cent. For 26 cents a customer can obtain two articles normally costing 25 cents each. The actual method of figuring out expenses and profits is as follows:

Suppose an article costs 10 cents to the chain and sells for 25 cents to the public, leaving a gross profit to the store of 60 per cent. The average cost of doing business is 20 per cent. When two articles are sold for 26 cents, the store's gross profit is cut to 6 cents, practically equivalent to the cost of doing business. But the real mission of the one-cent sale is to bring people to the store. It has been found that the sales volume of articles not included in the sale will respond to the sales stimulus. Furthermore, by increasing the rate of turnover on articles included in the sale, the expense of selling is reduced.

The Read Drug & Chemical Company, Baltimore, Md., time their one-cent sales for March, June, and October. March is chosen because the consumer is regarded as being in the psychological mood for special values after the holidays, according to Charles S. Davis, General Manager of the Company.¹

¹ Article on "Making Special Sales Yield a Profit," *Chain Store Age*, October, 1927.

During this month, department stores are conducting sales and, from the point of view of competition, a special sale is desirable. The June sale is arranged so that the consumer may stock up before going away for the vacation season. October, again, is a stocking up month, after the vacation period. The gross mark-up on one-cent-sale merchandise for this company is rarely enough to cover operating costs, but the increase in regular business at regular profit is found to cover any losses that may occur. The usual increase in volume during a one-cent sale is about 300 per cent, and the stimulus carries over for a few weeks afterwards.

One-cent sales are usually arranged to include the busiest days of the week. In Baltimore these are regarded as Saturdays, Mondays, and Tuesdays.

Other Special Sales.—Many chains make a practice of staging anniversary sales. Pon Honor, Inc., a grocery chain on the Pacific Coast, set a goal of a 43 per cent increase for its eight-day anniversary sale. Preparation for the sale was begun three months in advance of the actual event. An effort was made to make this an institutional sale, a 16-page tabloid size circular being printed, which carried, in addition to specials, an account of the policies and operation of the chain, together with pictures of stores and executives. Twenty-five cash prizes were offered to make sure of the enthusiasm of the personnel. Judges visited each store and filled in the following form, based on a 100 per cent rating.

Windows:

General appearance.....	20
Cleanliness.....	5
Originality.....	5
Display of daily special.....	10
Amount of merchandise used.....	3
Circular on window.....	2
Banners on window.....	5
Remarks:	

Interior:

First impression.....	5
Use of banners.....	5
Use of circulars.....	5
Use of display cards.....	5
Pyramid of daily special.....	5

Interior:

Counter display of daily special.....	5
Pyramid displays.....	5
Neatness of store.....	2
Cleanliness of store.....	3
Stock on hand.....	2
Originality.....	4
Attitude of manager.....	2
Attitude of assistant.....	2

Von's, Inc., of Los Angeles put on a novelty A-B-C- sale, which was nothing more than putting a special price on an item for each letter of the alphabet (see Fig. 16). This feature brought sales 20 per cent above normal.

 A-B-C SALE		
From Monday Morning, September 27th, to Saturday Night, October 2nd.		
A UNT JEMIMA'S PANCAKE FLOUR - Pkg. 14^c	J AM-TROPICAL FRUIT - 1 lb. Crock 21c BERRY 1 lb. Crock 32^c	R AISINS DEL MONTE Seedless Pkg. 10^c
B EN HUR SOAP 10 BARS 37^c	K EOKUK SLICED DILL PICKLES Bottle 25^c	S ALAD DRESSING BEST FOODS GOLD MEDAL 9 ounce 25c - 16 oz. 45^c
C HOCOLATE CANDY BARS 4 for 15^c	L IBBY'S RED ALASKA SALMON Tn 25^c	T OILET PAPER WALDORF TISSUE 4 Rolls 25^c
D RANO Cleans and Opens Drains 22^c	M & M MILK Tall Tin 9^c	U NDERWOOD'S SIMPLIFY COFFISH CAKES - Tin 15^c
E XTRACTS-Luverne VANILLA - LEMON - ORANGE and ALMOND 1 oz. 16c Vanilla 2 oz. 33^c	N UCOA The Food of the Future lb. 31^c	V ONS BEST COFFEE 2 lbs. 75^c
F RENCH Dressing MILAN'S BRAND - Bottle 25^c	O LIVES-CAL-GRO Large Ripe OLIVES Pint 15^c	W HITE KING WASHING MACHINE SOAP 2 Large Pkg. 75^c
G OLDEN AGE NOODLES, MACARONI, SPAGHETTI 4 Package 25^c	P EANUT BUTTER GOLDEN WEST 1 lb Tin 25c; 3 lb Tin 70^c	X TRA FANCY FRUITS AND VEGETABLES ON DISPLAY AT ALL VONS STORES -
H EINZ RED KIDNEY BEANS - Small 12c medium 16^c	Q UEENISABE'LA 20 ^c GRAPE JELLY 16 oz. glass 20^c	Y OUNG and Tender String Beans Tin 14^c
I NSTANT POSTUM 4 ounce Tin 25c - 8 oz. Tin 40^c		Z WIEBACK BISHOP'S Pkg. 14^c

FIG. 16.—Here is a list of the "A B C Sale" specials as they were featured in Von's house organ.

Sales for New Stores.—The opening of a new store is naturally an important event, as it often happens that the initial impression which this store makes is likely to be more or less permanent. It is rarely that a chain has the experience of the H. G. Hill Company, a grocery chain with headquarters in Nashville, Tenn., which was petitioned to open one of its stores in a particular neighborhood (see Fig. 17).

H. G. HILL STORES

Neighbors Sign Petition Asking Us to Open a HILL STORE in Neighborhood

It means something when people go to the trouble to get up a petition and have it signed—ASKING you to come into their neighborhood.

It means that we have dealt fairly and squarely with these people, that we have always given satisfaction, that we have helped them save money on better food—and that HILL STORES, more than any other store, have given service, satisfaction and *all-round, day-in-and -day-out savings*.

This case is typical. We have had many requests from all over the city—and it is gratifying to know that more and more people every day are recognizing the full value of **HILL'S Policy of SAVINGS AND SATISFACTION**

The Petition

Reads:
"We, the undersigned, living in the vicinity of South Culberson Avenue, Santa Ana, California, hereby petition HILL STORES, Inc., to establish a branch store at the above address, known as 'South Culberson and Culberson Street.'"

They Got
Their Store

Moving Picture Contest
HILL STORES will be glad to furnish any information desired to help contestants in the Moving Picture contest now on.
Ask the clerk at your nearest store.

Fig. 17.

Most chains believe it advisable to use a great deal of advance publicity in regard to the new store. If it is the first of its kind in the city, newspaper advertising is generally used, usually explaining about the chain and the new store, more or less in the nature of a news item. This advertising is followed by direct announcement of price bargains. Some chains distribute free goods with purchases in opening new stores.

Chains opening a store in a new neighborhood community, usually circularize this neighborhood. The nature of preliminary preparation naturally depends on the type of product sold and the character of the neighborhood. The Almar Stores Company, a grocery chain of Philadelphia, distributes a series of four letters to 500 housewives in the neighborhood of the store, at weekly intervals. New stores in this chain are always opened on Fridays. These letters¹ contain a clear-cut statement of company policies, a description of the type of merchandise offered, especially with emphasis on the high quality and low price. Aluminum coffee percolators, aluminum teakettles, glass butter dishes, and other household articles are often featured as leaders in opening sales of this chain.

The policy of the Regal Shoe Company is summarized as follows:

1. When we open a new store we bring it to the public's attention by large space newspaper advertising in the leading publication of the city. An example of such advertising for a new store in San Francisco is enclosed.

2. We very often announce free hosiery for men and women, with the compliments of the Regal Shoe Company, on the opening day of a new store. This is mentioned in our newspaper advertising, and we also produce special cards for local distribution, similar to the sample enclosed.

3. In the windows of the new store we make use of large decorative books on which a special opening message is featured, signed by our President, Mr. E. J. Bliss.

4. When we open new stores in cities where we already have other stores we very often make use of "direct by mail" advertising, obtaining a prospect list of customers in the neighborhood of the new store, and mailing open announcement cards.

¹ For an excellent resumé of methods employed by leading chains to develop sales for new stores, see *Chain Store Age*, November, 1925.

5. In such cities we also bring the new store's location to the attention of regular customers at other stores by window cards, pointing out our new location, and also by direct-mail methods to customers who might be served more conveniently at our new location.

The Merit Shoe Company, the Endicott-Johnson chain, gives away a pair of silk hosiery to the purchaser of each pair of ladies' shoes and a pair of men's silk hose to the purchaser of men's

ANNOUNCEMENT!

The

Merit Shoe Co.

Has leased the store at 907 South Main Street, next the First National Bank

This store will open for business as soon as extensive alterations are made

Opening of this store marks the latest addition to our rapidly growing chain of popular-priced shoe stores.

Watch For the Big Opening

Our next ad will appear on or about Aug 27th, 1925, displaying prices and styles of footwear for the entire family

OUR HIGHEST PRICE! \$5.95

Watch Papers for Opening Ad

Merit Shoe Co.

Incorporated

Stores in Principal Cities

Store No. 122

907 South Main St. Hopkinsville Kentucky

MERIT SHOE CO.

Stores in Principal Cities

HOPKINSVILLE'S NEWEST SHOE STORE

Will Open For Business

Saturday, Aug. 29th

Doors Will Open at 8 A. M.

With a complete new stock of the very latest styles for MEN, WOMEN and CHILDREN. Our enormous buying power enables us to offer our customers at real HIGH-GRADE FOOTWEAR at

Popular Prices

Women's Pumps and Oxfords in the Latest combinations and plain leathers
\$2.95 to \$5.95

Boys and Girls Shoes for school and play, built on proper fitting lasts, leaving plenty of room for the young feet to expand properly
\$1.45 to \$3.95

Souvenirs Free On Opening Day!

Made by Pennyroyal Ramblers
SHOES FOR MEN

Men's Dress Shoes and Oxfords
A choicest choice selection of styles and leathers
\$2.95 to \$5.95

Work Shoes
A complete stock for all kinds of work
\$1.95 to \$3.95

Visit Our Beautiful New Store on Opening Day.

Merit Shoe Co.

(Incorporated)

Stores in Principal Cities. Store No. 122
CHAS. D. SHANKLIN, Manager.

FIG. 18.

shoes (for advertising of this chain see Fig. 18). Some chains, on the other hand, such as the National Shirt Shops, Inc., do not offer any special merchandise at a cut price at openings. The Frank G. Shattuck Company, operating the Schrafft candy stores and restaurants, purposely avoids special emphasis on openings because it prefers to build the business up gradually, as the employees are not ready at the beginning to take care of crowds.

Cost of Special Sales.—It is desirable to know, of course, what special sales do for the chain in the way of increasing its sales volume and its net profits. A good example of this is shown by the practice of the First National Stores.¹ A sale, for example, is conducted on Campbell's soup at three-for-a-quarter. The normal weekly sale may be 8,000 cases. During the sale this will rise to 20,000 cases, and the week after drop to 5,000 cases, much as follows:

	NUMBER OF CASES	SPECIAL SALES
First week.....	8,000	
Second week.....	20,000	3 for 25 cents
Third week.....	5,000	
Fourth week.....	5,800	
Fifth week.....	7,000	
Sixth week.....	8,000	

The chain divides the total figures for the six-week period, divides by six to get the weekly total, and then compares this with the 8,000 normal sales. In this case the average was over the usual average.

The company obtains the cost of sales as follows: It ships goods out at regular selling price. Each Monday morning the store manager counts his stock on hand of whatever goods are advertised, and puts down the total. During the week he gets a further supply, and the following Monday he counts the stock again and puts down how many of the cans were sold at the reduced price on a mark-down slip. The district superintendent corroborates his count, and the report is sent in to the company.

Premiums and Trading Stamps.—One of the less frequent methods of stimulating sales is the use of premiums and trading stamps. The premium department of the United Cigar Stores Company is one of the features of the company. The policy of giving premiums was initiated when this company first started in business. A special company was formed to handle and expand the premium end of the business. Originally, the list of articles given away in return for premiums was chiefly made up of articles which men ordinarily liked, but it was soon found that silk stockings and other articles for women assumed marked importance and the premium list was accordingly enlarged.

¹ See *Chain Store Age*, November, 1927.

The clerk is instructed to place the certificate in the consumer's hand. Otherwise not half of them would be taken. The premium department buys all merchandise at half the price the consumer would have to pay and it gives these premiums as an inducement for the customer's trade. By buying at the United Cigar Stores, in other words, and saving the coupons, the customer can redeem these coupons for articles at virtually wholesale prices.

Cost is figured on a 100 per cent redemption basis, and is taken care of by profits from increased sales. Of course, there is never a 100 per cent redemption. In one year the United Cigar Stores had $86\frac{3}{4}$ per cent of its premiums redeemed, a figure remarkably high. When the redemption percentage is low, profits remain with which to start new premium stations, pay clerks, etc.

Some chains use trading stamps as a drawing card for customers but the practice has never become very widespread. Both premiums and trading stamps are forms of service which, in particular cases, it is found profitable to give because of the increased sales resulting from them, and the consequently increased profits to take care of the increased cost.

Cooperative Merchandising Campaigns.—There has been a movement of recent years by manufacturers to cooperate with retailers in staging sales campaigns. This is but another phase of the trend towards more direct distribution, but it deserves close watching in the future.

The Sun-Maid Raisin Company, which ceased distribution through jobbers, cooperated with the Federal System of Bakeries in putting on a Sun-Maid raisin week. Since many of the bakery's products were naturally made with raisins, any increased sales would accrue to the benefit of both the manufacturer and the chain. The following analysis of results accomplished by retail units during the Sun-Maid week is interesting as showing what such cooperation will effect:

Average sale for raisin bread three weeks prior to	
Raisin Week.....	\$19.66
Average sale raisin bread during Raisin Week.....	26.03
Average sale two weeks following.....	20.94

This meant that, during Raisin Week, sales of raisin bread increased $32\frac{1}{2}$ per cent. Although sales afterwards fell off, there was a net gain of $6\frac{1}{2}$ per cent.

Chain organizations with manufactured products of their own normally prefer to feature such products, but there are undoubtedly possibilities in the idea which have not yet been fully determined.

Keeping Track of Customers.—One of the best methods of keeping up sales is to follow up customers. The telephone is a good method, provided complete and accurate records are kept of customers' purchases. Chain stores will be compelled more and more in the future to adopt some of the department-store methods of intensive sales cultivation.

Roos Brothers, operating a chain of six apparel stores on the Pacific Coast, have a master card information system, giving every name of their 33,000 customers, address, telephone number, nature of merchandise purchased, lot number, size, price paid, salesperson serving, the date of purchase, and total purchases for any four-month period, or one season of the year. Merchandise checked includes sales in hats, suits, and overcoats for men; suits, coats, dresses, and millinery for women; and suits and coats for juveniles.

The cards are assembled at the central office, where they are filed ready for reference by any of the stores. Each store has a different color for its own group of cards. The central office uses the cards for publicity purposes. If a reasonable amount of time passes without a customer making a purchase, he is called on the telephone and told that the store is carrying a garment in his size at an attractive price. Employees must report as to the results of calls on names on their lists. Salespeople are advised to make up lists of customers by:

1. Making note of all charge customers.
2. Noting peculiar leanings of customers towards merchandise.
3. Suggesting to other customers that they leave their names, so that they may be given merchandise information.
4. Watching stocks and selecting merchandise which they sincerely believe customers will enjoy hearing about.
5. Telling customers of the desire of the store to serve them with information concerning new merchandise.

CHAPTER XII

SERVICE AND GOODWILL

Ideas of service and customer satisfaction came late in the development of retailing. The theory which John Wanamaker put into practice that "the customer is always right" was revolutionary in its day. Once having accepted the idea of service, the department stores made it a weapon in competing with each other, the result being that the costs of distribution were materially increased by services which did not come strictly within the relations of buyer and seller, but rather acted as bait. During the first quarter of the twentieth century, the idea of a chain system was closely connected with lower price and few if any services of a concrete type, such as deliveries and credits. This is still the predominating situation today, although there are signs of change.

The chain, however, has always given service, in the truer sense of the term. It has provided the consumer with goods at the lowest price, without charging him for deliveries, credits, or poor merchandising methods. It has definitely established the principle in retailing that "the customer should pay only for what he receives." If he wants credit and delivery, he can easily find a store rendering these services, and pay for them the extra amount required. It is more than likely that service chains, especially in the grocery field, will become more and more frequent. The initial investment will be more, the type of management will be higher, and the supervision of individual store units will be closer, but there is undoubtedly a large class of consumers awaiting this type of chain, and when the cash-and-carry field is thoroughly saturated, the opportunity will be taken up. There are already service grocery chains operating on a profitable basis.

Factors in Determining Service.—The decision as to what services should be rendered by a chain is not always a simple

question to determine. There are a number of factors to be considered, and the relative importance of these factors will differ in many cases.

1. *Competition*.—Competing chains, just as competing independent stores, keep a close watch on each other to see what means are adopted to attract customers. Competition on a price basis alone is not without its disadvantages, particularly in lines where prices are fairly well stabilized, as in the grocery and drug fields. Something more is necessary to obtain customer goodwill. A chain will not grow rich from the purchases of bargain hunters. The chain has a great advantage over the department store in that it is not now hampered with custom in rendering services, and whatever service it decides to render can be done judiciously and not under compulsion. Nevertheless, the services rendered by the trade in general and by close competitors in particular must always be the dominating influence in the determination of the policy of a particular store in regard to service.

2. *The Type of Customer*.—A store which caters to a wealthy clientele must be prepared to render a greater amount of service than a store located in a section, where the residents have few surplus dollars to spend. Certain department stores have tried to cater to two classes by means of the "bargain basement" selling for cash and no delivery and no exchange, but the chain system must make up its mind in advance as to which market it prefers, and govern its policies accordingly.

3. *Store Location*.—The growth of neighborhood shopping centers has simplified a great deal the problem of delivery. The tendency is towards the purchase of necessities in the neighborhood, while for specialties a trip to the city will be made.

4. *Type of Merchandise*.—Some types of merchandise require service if the sale is to be satisfactory. The spread of chains into such fields as pianos, radio, and jewelry, not only requires the extension of credit, but also introduces the problem of keeping products sold in repair, while in the radio field there is the problem of installation to be considered as well. A ready-to-wear clothing chain will also have to adopt a definite policy in regard to alterations.

Delivery.—To what extent shall the chain deliver purchases? The original cash-and-carry policy, inaugurated in a period of hard times, has been partially abrogated in fact, even though not officially repealed. Many of the great chain grocery systems, largely at the initiative of the local managers, hire boys to deliver in the neighborhood after school hours. This undoubtedly secures a great deal of business which would otherwise be lost to the independent store. While the customer does not ordinarily object to taking home small purchases, when large orders are given, including such heavy items as canned goods, potatoes, or sugar, she wants to have them delivered at the back door.

One solution of the delivery problem is to offer free delivery on orders over a certain amount. In the china and kitchen-utensil department of a certain New York chain store is a placard offering delivery in any part of the city on orders for \$5 or over. Even when the delivery is out of town no charge is made unless the express fee is greater than that within the city limits. This allows the store to serve the various thickly populated Long Island suburbs. The express charges usually amount to between 35 and 50 cents, which may seem like a large sum, but the goodwill which accrues to the chain is regarded as offsetting the expenditure for the service.

The questions of the range in which delivery should be made, the frequency of deliveries, or the smallest unit purchase which will be delivered will depend on chain policy, physical limitations, and costs. If the chain can deliver without increasing materially its operating costs, it cuts off one of the independent store's greatest apparent bases of competition.

Telephones, which for years were banished from the ordinary chain store system units, have latterly begun to come back. If a customer can telephone for an order to the chain and have it delivered, then the independent store's position is much more difficult. That this can be done at very little added cost is the experience of certain chains which have tried it out.

Certain chains have also decided to fill orders by mail, believing that the attention directed to the store in this way will offset any inconvenience, and that customer goodwill can be built up in this way.

Credits.—The chain store field has always been, and still is, operated mainly on a cash basis. Nevertheless, a certain element of the population demands credit accommodation. The so-called “quality group” which has the most money to spend, is almost unanimously in favor of a credit policy. It is willing to pay for the labor of bookkeeping, the sales system required, and the cost of collecting overdue accounts. The reason for the giving of credit by the store is to get business.

The average chain, by the very nature of its organization, is not equipped to grant credit. While it recognizes fully that credit granting tends to make permanent customers, builds up goodwill, and is a convenience to customers, yet it believes that the reduction in the chain’s selling expenses, the sound condition of its finances due to no accounts receivable, and the nature of the products normally sold by it more than offset any gains that might accrue through the granting of credit. A store which sells necessities, such as the grocery store, cannot readily pick its credit risks. It sells to both the rich and poor, the honest and the dishonest. That the average chain today does not grant credit is due perhaps as much to the character of the goods sold as anything else.

With the growth of chains which cater to a quality market, it is to be expected that credit will be a regular policy, in those chains. It will require, however, considerable modification in the powers of the store manager. What credit is now granted is done at the personal risk of the store manager, without the approbation of the chain. If a chain is to grant credit as a general convenience, it will have to select managers able to pass on credit risks, and give them authority to grant credit, and be ready to pocket whatever losses may occur from bad debts. Presumably also it will have to accept the responsibility for collections, as this task is beyond the proper scope of a retail store manager’s duties.

Courtesy.—Courtesy to all customers is a fundamental rule that should be enforced by all retail stores. It is the recognition of the effect of courteous treatment on the customer that led the United Cigar Stores Company to insist that every clerk in its employ say “thank you” when a purchase was made, however small that purchase might be.

One of the results accomplished by any service is the personalization of the relations of the customer with the store and its manager. Unfortunately, in the chain, the treatment of the customer becomes part of a system. This system will be observed only in measure as the employees are well trained, well supervised, and given an incentive in the way of bonus or hope of promotion.

Store service in the mind of the customer is mainly a feeling as to whether he or she likes to buy things at a certain place. Service may not be so much what is done for the customer as it is the manner in which it is done. There is a great deal to be said for the standard system of courtesy and service in the chain. While the majority of independent storekeepers and their employees are probably courteous, yet more cases of discourtesy and indifference are to be found in independent stores than in chains. There is the story of the man who went to his tobacconist for an empty cigar box, and met with a gruff refusal, only to have his request acceded to at the United Cigar Stores chain. The clerk at the Liggett store is always cordial whereas, too often, the clerk at the independent drug store fulfils his duties with an air of boredom which sufficiently reflects his attitude toward the customer.

The restaurant field is one in which courtesy commands a high premium. In the B/G Sandwich Shops great attention is paid to the quality and character of the service given to customers. One of the store managers made a resumé of why certain of his customers walked a block or more out of their way to eat at his shop. They are as follows:

- a. No tipping.
- b. Extra service of coffee.
- c. No charge for jelly with breakfast combinations.
- d. Free matches.
- e. The "thank you" from the cashier.
- f. The pleasant atmosphere which the shop hostess creates.
- g. The appreciated effort to please customers.

All of these reasons are variations of service to the customer. Coffee and toast cost 25 cents, but the customer is served with all he wants. No fried foods are served because of the unpleasant odor. The company keeps constantly after the personnel.

Almost all shops have store hostesses, under the store manager, but supervising the girls. The hostess works on the customers' side of the counter during rush hours, helping customers to find seats, and seeing that things move smoothly. One of the maxims which the company dins into the ears of its employees is "A smile is as much a part of our service as the napkin and the glass of water."

Attention to Children.—The importance of treating children with consideration is well recognized by the leading chains.

START TODAY! DON'T DELAY!

Get this—
Large Durable
Playball
FREE

WHILE THEY LAST
BY OUR PUNCH CARD PLAN

Upon purchasing one of each of these eight articles at our usual low prices and having the manager punch as purchased.

1 qt. Whiting's Fresh Milk	12¢	☐
1 can Peter Pan Peas	20¢	☐
1 can Baker's Southern Coconut	18¢	☐
1 szl. can Marshmallo' Mist	12¢	☐
1 sma. pkg. Tetley's Tea	10¢	☐
1 sma. pkg. Soapine	07¢	☐
1 med. bot. Sawyer's Crystal Blue	13¢	☐
1 bot. Sylpho-Nathol	15¢	☐

Total Purchase Value **\$1.07**

Present this card when all eight items have been purchased, and punched out, and get your Play-ball.

SAVE THIS CARD — IT IS VALUABLE!
 (SEE OTHER SIDE)

FIG. 19.

Particularly in neighborhood and rural stores do children frequently make purchases for their mothers, and the manner in which these children are treated is sure to be reflected in the attitude of the parents. It has happened that a chain manager will wait on all the adults in the store before tending to the children's wants. He does this with the perfectly understandable feeling that the adults' time is much more important than that of the children. This is sometimes particularly easy when a child is bashful and rather afraid to make known his wants.

He appreciates receiving the same kind of treatment that is given to the grown-up. The wise chain manager will do what he can to win the child's patronage, because the child is likely to be constant in his attendance at that store once his support has been enlisted.

In some chains, managers are encouraged to give children a piece of candy occasionally. Managers often go further and make personal friends of their small patrons. Figure 19 shows how one grocery chain offered a large colored playball free to customers purchasing one each of eight different items. As an article was purchased it was punched off on a card, and when all the spaces were punched the playballs were given out.

Realizing the importance of children's patronage in its business, the Great Atlantic & Pacific Tea Company supplied store managers with envelopes to be used for enclosing change to children who made purchases. Each envelope was printed with the following message:

"Dear Madam: Your change is in this envelope. Thank you for the order, and for the confidence you and your children have in my store. I will always make it a point to treat your child as I would yourself.

.....Manager."

Complaints and Adjustments.—One of the major factors in customer satisfaction is the adjustment of complaints so that no ill feeling remains, and, if possible, so that goodwill is increased. Some of the larger chains in the past have not allowed managers to adjust complaints according to their own judgment. This has seemed necessary, but the feeling that customer satisfaction should be secured even though some loss should be incurred by the store in procuring it is rapidly becoming the prevailing one in the chain store field.¹

In the National Shirt Shops, Inc., each manager is allowed to correct instantly every complaint on service or merchandise. This chain feels that this is exceedingly important because men, as a rule, find it harder than women, to complain, and, when they do, there is usually more ground for complaint.

¹ See *Chain Store Age*, September, 1925.

Figures 20 and 21 illustrate the forms used by the Dow Drug Company, of Cincinnati, in making adjustment of customers' complaints. This is the application of the same rule of merchandising which has worked so well in the case of Sears Roebuck &



GEN'L OFFICE & WHOLESALE DEPT.,
BROADWAY & NINTH ST.

THE DOW DRUG CO.

GEN'L OFFICE & WHOLESALE DEPT.
BROADWAY & NINTH ST.
CINCINNATI

RETAIL STORES IN
CINCINNATI-NORWOOD
ELMWOOD-CARTHAGE
COVINGTON-NEWPORT

I am informed that quite recently you found occasion to return to one of our stores certain merchandise which you had previously purchased and which for your own good reasons you did not care to retain.

I trust that the sales-person when making the sale to you did not in any way misrepresent the article, nor mislead you in any way. This is not permitted for an instant and is in violation of our entire policy.

Also it is hoped that when you returned the goods a refund or exchange was promptly, courteously and willingly made. Our theory is that no article is really sold until the customer is satisfied, and it is not only our duty, but our sincere pleasure to please and satisfy you.

If you do not think the transaction was handled entirely as it should have been, I would be pleased to have you tell me, using the other side of this letter for your reply.

Sincerely,

DCR:S

PRESIDENT and GENERAL MANAGER
DOW'S

FIG. 20.

Company and the other large mail-order houses. It is better to suffer a few impositions rather than to lose good customers. Many letters are received in reply to the form letter illustrated expressing the customer's gratitude for the generous treatment he has received.

The Times Square Radio and Auto Supply Company, Inc. allows its managers to make adjustments immediately, with the one exception of tires and tubes, claims in regard to which are referred to the home office and settled within 48 hours.

REPORT OF REFUNDS UNDER		Nº 10503
"GUARANTEE OF SATISFACTION"		
Store No. _____	Date _____	
Customer's Name _____		
Address _____		
Description of Goods Returned _____		
Name of Manufacturer _____		
Cause of Return _____		
Amount Refunded _____		
Or were goods exchanged _____		
Remarks: _____		

Signed _____		Store Manager
IMPORTANT NOTICE — These reports <i>must</i> be sent to the office <i>daily</i>, without exception, and without further notice. Give all necessary information, but remember that the first requisite is to please the customer. Note instructions in bulletins from time to time. All refunds must be made by Store Manager or man in charge.		

FIG. 21.

Neisner Brothers, Inc., of Rochester, New York, establishes definite rules for governing the contact between salesperson and customer. The cardinal point of this policy is a guarantee of satisfaction to the customer on all merchandise sold, rather an unusual policy for a chain in the five-cent to one-dollar field. The management finds, however, that most requests for adjustments are honestly made. Even when misrepresentations are

made with a request for exchange, the articles are exchanged in every case, and it is believed that this policy is profitable.

Costs of Service.—More or less research has been done on the actual cost of services of various kinds. Under actual operating conditions, which vary in almost every case, these costs show little uniformity. The average expense of delivery for an independent retail store would probably be around 2 per cent. It is claimed that the saving in paper and string used by the cash-and-carry string goes a long way towards paying for delivery. One chain which delivers orders over a certain minimum, finds that the average order is nearly \$2, the average delivery cost $3\frac{1}{2}$ cents an order, which amounts to approximately 2 per cent. This chain figures that paper and string for such orders would average 2 cents on the dollar. According to the Harvard figures, based on an average typical store doing an annual business of \$65,000, the delivery expense would be 1.2 per cent without drivers' salaries, and 1.8 per cent including them. All these percentage figures apply to comparison of total expenses with total sales.

Losses entailed in giving credit vary widely in different types of businesses. For the grocery field the estimate varies from 0.47 to 0.35 per cent. In some lines losses from bad debts can be held down to one half of 1 per cent.

The principal point to consider in connection with service is that the actual savings made by omitting them are not so great as once were supposed. The chain stores, by forcing their independent competitors to reform their methods, have brought down retail prices to such a degree that the chains can no longer rely on price alone for competition, and must seriously consider the addition of certain of the more fundamental services. The logical form which this development will take will be the formation of chains giving service and charging somewhat more for the convenience of the wider variety of stock, deliveries, telephones, and credit accommodations.

CHAPTER XIII

DISPLAY

An efficient system of window and store display is essential to the success of any modern retailer. While the great department stores have always been leaders in this field, chain store executives have followed their example, in many cases carrying the systematization of display to a high degree. While the number of chains which do not advertise is steadily growing less, yet there are many left which rely largely on the appeal of their window displays to attract passing traffic within. Even for those chains which advertise extensively, the window display often remains the most important publicity device which can be employed.

The extent to which window display will stimulate sales can rarely be arbitrarily calculated. The location of the window is a primary factor, of course, as well as the products displayed, the seasonability of the appeal, the price policy, the cooperation back of the display, and, finally, the technical skill employed by the window artist. For successful display there are two main requirements:

1. The window must be planned and executed under expert management. The degree of expertness will, of course, vary. For a grocery chain, where the possibilities for display are limited compared with some other fields, it is often possible to send directions to local managers as to what to display and how the display should be arranged. The large drug chains and some small ones employ expert window trimmers, finding that this policy increases sales far in excess of the increased expense.

2. Certain fundamentals of the psychology of display must be understood. Although the sole judge of a window's success is the sales report, there are certain factors which help to make a window successful, such as the simplicity of the display, its seasonal character, its freshness of appearance, the use of price

tickets, proper coordination with other advertising and sales policies, and finally proper lighting and technique.

The importance of display varies. In some cases, such as five-and-ten-cent stores and cigar stands, it must do the entire job of selling. In other cases, such as department stores, it acts as an invitation to enter the store and make a closer inspection, although here also it frequently makes sales. In every case it is one of the most important extra-selling activities.

Display Management.—The systems used to ensure good display windows are legion. They vary from the policy which allows the local manager a wide degree of latitude to that in which the position of every article to be put in the window is carefully marked out on a diagram. The large chains almost always centralize display control at headquarters, and pay large sums to window experts for their services. This policy has the advantage of ensuring an even standard of excellence throughout the chain's selling territory. On the other hand, it frequently does not allow for local differences.

Some chains dress model windows at headquarters and send photographs to their member stores. This policy is generally too expensive for the smaller chains. Certain chains, again, put the responsibility for display on district managers, but this has serious disadvantages, since the primary task of the district manager is not to trim windows. Certain other chains employ experts to travel from store to store, teaching the managers the fundamentals of good window trims.

The L. K. Liggett Company employed a force of 112 men to trim the windows of its 340 stores in 1926. Trimming drug-store windows was found to be such a specialized task that most of the men in the organization worked up in the organization itself. In fact, window decorators, who had been trained by some of the best-known department stores, were found to be failures in trimming drug windows. This is due, perhaps, to the great number of articles which must be included in a shallow window. Furthermore, many stores are situated in the midst of heavy traffic where constant vibration makes it essential to set up the window trim with great care. The company's window trimming force works five days a week, including one evening, and overtime during special sales. Most of the men are com-

paratively young. Interest is stimulated by prizes given each year for the best windows.

Testing Displays.—While the sales sheet will show whether a window is successful or not, the only method of finding out what elements make a window successful or not is to make tests under different conditions and tabulate results. This is not always easy because conditions vary so considerably. Given a single product, even, tests may be difficult to make, but the effort is worth while. For example, the effect of lighting can be measured by clocking the number of people who stop to look at the display under various illuminations. The same thing can be done by first running a window with price tags and then the same window without, and measuring the differences in attention and sales. Tests can also be made as to the most desirable frequency of changing windows.

C. M. Dawson, secretary of the R. J. Seidenberg Company, operating 18 retail cigar stores and stands in Buffalo and the vicinity, made a most interesting test of the habits of cigar purchasers with a view to their effect on display.¹ He knew already that men bought cigars in a hurry and that display must do practically all of the selling, the function of the sales clerk being largely to create goodwill. He found that only 14 per cent of the customers asked to have the clerk recommend a cigar; 20 per cent looked over the display before making a selection; but three out of every five bought the first brand they saw. To prove this point, he made tests. At one of the hotel Statler stands, he had the manager remove one brand—a best seller—from its position in the case and substitute for it another, but equally good, brand. As a result, sales volume was immediately reversed. He made, in consequence of this discovery, a longer series of tests. For a period of more than two months clerks were required to make written daily records of brand sales compared to display position, the positions being constantly changed. The results from the various units were found to differ but little.

Cigars placed on top of the glass cases were found to sell best, this position being worth double any other. Since this position is not practicable, due to atmospheric conditions and to the

¹ For full account see *Chain Store Age* for May, 1927.

untidy appearance, he tried putting boxes directly under the glass, but even this slight obstacle was enough to create sales resistance. The next to last row in the case, boxes being arranged in four rows, is the best because when the customer looks through the top of the case, his eye first strikes this position.

The result of the investigation as to display position was an increase in the net profits of the chain. One cigar of a given quality often does not allow as much margin of profit as another cigar in the same quality class. The problem was to put the

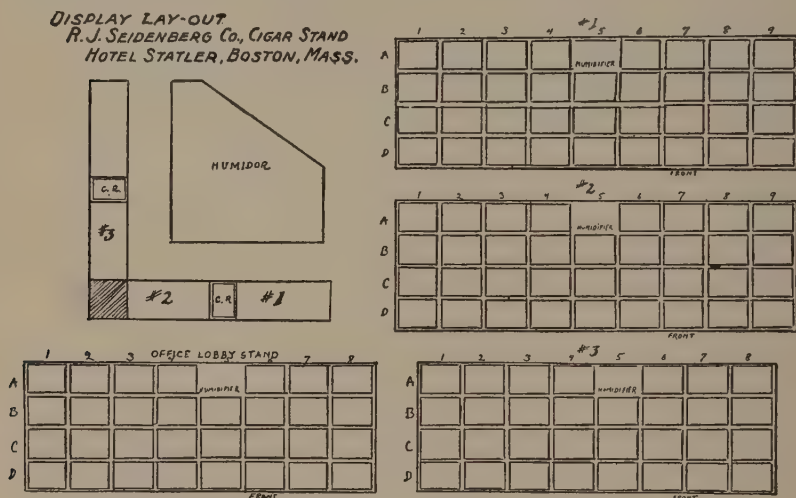


FIG. 22.—Each manager is given a diagram of his display. The layout indicates the space for every box of cigars and headquarters decides how the space shall be occupied.

best paying brands in the best selling positions, since it was evident that the manufacturer's advertising was proving of little effect when compared with a first-class display location.

Bulletins were despatched to managers specifying display positions but these were not successful. Local managers had preferences of their own, mainly intuitional, but they did not want to make changes. Manufacturers whose products were to be put in inferior positions also objected. As the only method of enforcing uniformity, a diagram for display was prepared, as illustrated in Fig. 22. Here a space is given for each possible box to be displayed and the brand name inserted. Notice was

given managers that any deviation from this schedule would result in immediate dismissal.

Planning Displays.—Window displays must be carefully planned in advance. In grocery chains, plans can be made at long range, while for stores whose merchandise shows greater variation plans are prepared shortly before the display. Every chain should recognize that a large percentage of its rent is going for window space, although not everybody will agree with the extreme claim that four-fifths of the rent goes for the display windows. Effort should be made, however, to take full advantage of window opportunities and this can be done only if plans are made beforehand for installation, equipment, and coordination with advertising, not to mention securing the backing of salespeople and the preparation of an adequate stock of products.

The Liggett chain has an exceedingly efficient system of planning display, starting with the decision to open a new store.¹ A notice is sent to the superintendent of displays when a new store is to be opened, and this official immediately sends to the general manager of the particular district lithographed posters to be put in the windows of the empty store, announcing its coming opening as a link in the Liggett chain. The superintendent of displays already has a blueprint of the layout of the new store, which shows him the position of every thing, such as showcases, counters, windows, posts, and fixtures. Experience has already shown that a window 36 inches deep and 16 feet long requires the following equipment:

- 4 14 × 28 frames with base.
- 4 7 × 11 frames with base.
- 1 22 × 42 frame without base.
- 6 14 × 28 frames without base.
- 5 24-inch pedestals.
- 7 18-inch pedestals.
- 10 12-inch pedestals.
- 8 10 × 32 glass shelves.
- 8 10 × 24 glass shelves.
- 10 6 × 12 glass shelves.
- 4 8 × 8 glass shelves.
- 6 9-inch glass circles.
- 6 12-inch glass circles.
- 10 18 × 10 glass ovals.
- 15 12-inch glass pedestal vases.

¹ See *Chain Store Age*, January, 1926.

particular instance that percolators had done very well for a second week on display, having been shifted from window 12 to window 1. Thermos bottles also sold well. Normal sales of this item were between \$48 to \$50 while the window display had increased the volume to \$118.58. The Westlox window had tripled sales. Window 6 had failed to produce satisfactory results, the reason being that the product was too good for the particular store, and plans were made to try it in another location.

The Psychology of Display.—At its best, display may be depended upon to make sales, as in the case of the five-and-ten-cent store. Under any condition, it must be relied upon to create the right mental attitude in those who are attracted by it, usually to the extent of inducing them to enter the store. The window must be designed so as to fulfil the following conditions:

1. *Attract Attention.*—Ordinarily, some method must be employed to make passers-by stop and look at the window display. Brilliant illumination for example, is one of the best methods of attracting attention. While optical illusions and mechanical contrivances may bring a crowd to the window, the danger here is that the object of the window—that is, to sell goods—may be lost sight of. The arrangement of the display frequently is sufficient to attract attention, such as the use of mass effects. Color also may be employed. If the same people pass the store day after day, then the display must be changed frequently if it is to continue to attract their attention.

2. *Create Interest.*—The second step in the display psychology is to turn the momentary attention which has been secured into interest. This may be done in a variety of ways. A price bargain naturally will interest many. The timeliness of the display will frequently be sufficient to arouse interest. Showing how the product is used often will hold the interest of the window audience.

3. *Arouse Desire.*—The same methods are employed to turn the interest in the production to a desire to own it. Carefully prepared and worded posters and signs, attractive prices, artistic settings, all contribute to make the individual enter the store.

4. *Cause the Purchase.*—The ultimate object of the display is to make sales. To this end, it is desirable that it be coordinated with other store selling activities. Newspaper advertising should

be connected with it; so also should counter and shelf displays. Everything in the store should be done to help out the window itself. In the grocery field, it is customary to work along the lines of least sales resistance. For example, the "loss leader" is employed—a product on which there is little or no profit but for which there is a good demand, usually created by manufacturers' advertising. The store is satisfied if the loss leader will bring the customer inside.

In the matter of attracting attention, it is important to remember that every type of retailer has a different problem. While the grocery and drug dealers may offer their windows to all passers-by as potential customers, the hardware store appeals principally to men, the millinery store to women, the jewelry store to a very small percentage of the public.

Lighting as a Method of Attraction.—All things considered, good lighting is the best and most economical method of attracting attention to window displays. It has been proved time after time that people, like moths, are drawn toward bright lights, and, particularly when there are competitive stores near by, the lighting which makes the windows of a particular store stand out from their surroundings far more than pays its cost. Some stores go so far as to keep the windows lighted during the day, using a more intense illumination. This not only attracts attention but it kills the daylight reflections and sets off the goods on display to better advantage.

The small chain will do well to avail itself of the expert service rendered by certain manufacturers of lamps and reflectors as well as certain public utility companies, in planning proper lighting. While an intense white light thrown directly on the goods to be displayed is generally most effective, there are occasions where colored lights will serve the purpose better, particularly as they give a certain atmosphere to the display.

Mr. Mitchell, Superintendent of Display, of the L. K. Liggett Company¹ points out that window backgrounds and drapes must be chosen carefully with regard to the reflection of light. Colors that reflect should be chosen rather than those which absorb light (see Fig. 25). Colors must not only set off the merchandise well, but they must combine with each other and with the light-

¹ *Chain Store Age*, November, 1925.

ing. Mr. Mitchell recommends backgrounds in which cream, buff, tan, grey, orange, light green, light blue, or yellow predominates. Backgrounds made of colors which absorb light tend to make the window look dull.

All lighting sources, of course, should be hidden from view. An excellent position for them is at the top and front of the window, close to the plate glass, thus focussing the lights directly

How Certain Colors Absorb and Waste Light.

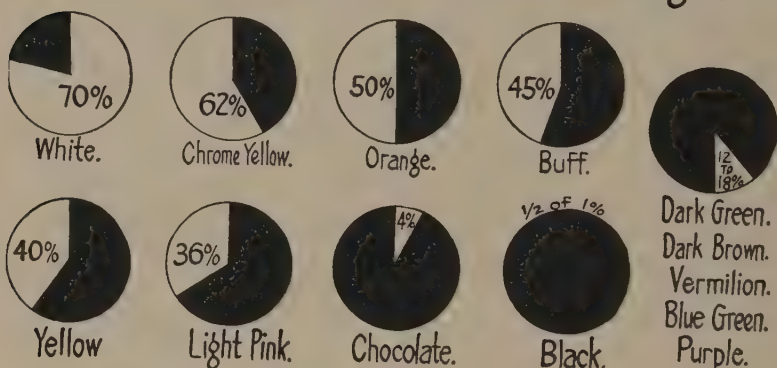


FIG. 25.—In connection with lights, the importance of the selection of the proper colors to be used for window backgrounds and decorations is emphasized. Some colors help the lighting because they reflect, or throw out light rays. Others waste the light because they absorb or take in the light rays. In the above chart, the white segments of the circles indicate the percentage of light reflected by the various colors. While colors which reflect the most light are usually considered most effective, white should be used sparingly because it reflects too much light. (*Chain Store Age*, Nov., 1925.)

down upon the merchandise. An ornamental valance can be used for concealment if necessary. S. L. Ruzow, secretary of the Sarnoff-Irving Hat Stores, recommends that lamps and reflectors should be spaced close enough to make lighting uniform, which, in the case of this particular chain, means 200-watt lamps, with proper reflectors of silvered glass, spaced on 1-foot centers.

When buying lighting equipment, it should be remembered that reflectors should be chosen which will not turn dark from the heat. It has frequently happened that window lighting efficiency has been reduced from 25 to 50 per cent by darkening

of reflectors. It is possible to buy reflectors which will maintain their efficiency for at least five years, according to H. D. Daneny, purchasing agent of the G. R. Kinney Company.

Window Appearance.—Next to proper lighting, attention is secured by the appearance of the window. Mention has already been made of the danger inherent in the use of artificial mechanical devices to secure attention where attention is focussed on the method of securing attention rather than on the goods. The mass display, which secures its effect by filling the window with a certain product, has always been one of the most reliable methods of attracting attention. Wherever possible, it is desirable to show the uses of the articles featured. The actual cooking of the griddle cakes in the windows of Childs' restaurants has always been a most powerful method of attracting attention as well as of drawing patrons into the restaurant.

While both the general display, which features a number of articles, and the concentrated display, which features one window of but one article, are both used, the consensus of opinion favors the concentrated form. One expert goes so far as to state dogmatically that solid displays of any article will sell more articles than the mixed displays.

It is important that display equipment be fresh and clean. This applies equally to shelves, pedestals, trays, paper doilies, or whatever else is used. Sign holders should be used in almost every case, because signs leaning against the display never looks so neat, and signs fixed in that way may be knocked off or injured.

Changing displays is a matter of great importance, but the time a display may remain differs with the line of products. A display of candy, for example, may not remain fresh more than a few days. It may, in fact, be desirable to change it daily. In grocery lines, it is customary to change the display at least once weekly, usually on Saturday night. Drug chains rarely allow a window to remain more than two weeks, and usually only one week in a given window. If it proves sufficiently good as a drawing card, it is moved to another window for the second week.

If a window does not attract attention, or if it attracts attention but does not sell goods, it is important to find out the

reason for its non-success at once. One simple but effective method is to mingle with the crowd outside and listen for comments.

The Question of Price Tickets.—There are those who contend that it is not always right to put price tickets in the window. The average chain, however, will do well to profit by the example of leaders in the business. It is the Liggett policy to show the price always. Otherwise, window shoppers will not purchase. By window displays alone, Liggett drug stores dispose of 100 tons of breakfast coffee monthly. In a 12-day display of alarm clocks in one store, \$400 was taken in on this one item. It is also important to remember that prices should be put on expensive as well as on cheap items. The average purchaser is interested in the price as much as he is in the product. He is looking, in many cases, for a bargain. The bargain argument is always a powerful one. But in no case should the word "special" be used unless there is a reduction in price of a substantial amount. The public is very quick to decide whether a store is honest or not in its bargain policy.

Not only is the inclusion of price tickets a powerful inducement to the potential customer, but it saves a great deal of time for the store sales force. A customer sees a certain article in the window. He comes into the store and says, "Let me have one of those 75-cent boxes of candy," instead of asking what kind of candy is for sale, how much each kind costs, etc. As is often pointed out, the sales clerk in the five-and-ten-cent store has to do practically no explaining. The products are displayed and a certain price ticket placed on them or on the tray containing them. The customer looks them over and picks out what is wanted without assistance. This is a lesson which other chains can apply to their own problems.

Coordination of Display.—The ultimate end of all window display is to make sales, and this goal should never be lost sight of. Care must be taken to carry out the display program and to utilize its full value by careful coordination with various factors, the most important of which are the following:

1. Timeliness of display.
2. Relation to each other of products displayed.
3. Cooperation of sales force.

4. Coordination with other advertising.
5. Inside display.

It is important, of course, to remember that enough merchandise must be on hand to take care of the demand aroused by the window display, although it will not often happen that a window display will sell out reserve stock in the store, the warehouse, and the factory, as was the case with a certain Liggett display of playing cards.

While the majority of chain systems attempt to place their stores in communities of approximately the same buying habits, it sometimes happens that stores are run both in richer and in poorer sections. In such cases, it is customary to stress quality in the former, and quantity and price in the latter when installing windows. Furthermore, a chain operating nationally may have to allow for local differences. The J. C. Penney Company has created a special department of window trimming under the supervision of the advertising department. During the early years of the company's growth trimming was left entirely to the local managers. It was felt, however, that suggestions from an expert trimmer at the main office would be of great value.

Three different-sized windows—small, medium, and large—are planned so that they will fit in as closely as possible with the characteristic Penney windows. This practice enables the store in the West to use the same trim as the store in the East. The individual store manager is still allowed to change and modify the standard trim to fit local conditions. The method of distributing the trimming information is as follows, according to *Women's Wear*:

The specially prepared windows at headquarters will be dressed in their entirety, and photographs will be taken. Afterwards the merchandise will be removed and pictures taken of the skeletons, showing fixtures used in the window and collective and individual units. Pictures will be sent out accompanied by detailed descriptions.

Special attention will be given to trims for the weekly selling plans of the company, such as for leather and fancy goods, vacation goods, straw hats, etc. The company plans to have trims changed twice a week, as it is felt new trims are a great deal more effective than ones that have been left in the window for more than a few days.

Timeliness and Relativity.—It seems hardly necessary to point out the desirability of having timely and seasonable displays. Since it is always most profitable to display goods when the sales resistance to them is at its lowest point, it becomes practically axiomatic in the grocery trade to display eggs at Easter, cranberries at Thanksgiving, and specialties at Christmas time. A drug store or a department store can constantly find opportunities for timely display. A window for umbrellas, raincoats, or rubbers, during a rainy spell, is an old custom, and a profitable one.

The importance of displaying related items should not be overlooked. A display of toothpaste may well accompany a window full of toothbrushes. Kodaks and films, paint and brushes, collars and neckties, naturally go together. It is a fundamental rule in display that windows must not contain articles antagonistic to each other or which rouse unpleasant associations in the minds of customers. Candy, for example, must be kept away from such articles as perfumes or wearing apparel. Nothing must interfere with the idea that the candy on display is fresh, clean, and appetizing.

Some chains make a rule that no display shall be put in a window which might displease any potential customer. This would automatically exclude displays of live birds, fish, or animals.

The sales force should always be informed as to goods on display—failure to do this has often resulted in lost sales, and, at the best, in wasted time in finding out what the customer refers to.

Coordination with Advertising and Inside Display.—Many chains make it a rule to display in their windows whatever articles they advertise. They also make it a rule that whatever is displayed in windows shall be shown also inside the store. It is difficult to see the need for exceptions to this procedure. It has often happened that a customer sees something in the window, enters the store, fails to see the article, and goes out again without making the purchase. It should be possible for this customer to enter the store, point to an article, merely say "I'll take this," and go out again with his purchase.

Inside displays do not need to be especially elaborate. Grocery chains sometimes use floor displays for this purpose. Here, care

should be taken lest the floor display become messy; also it should be changed frequently to secure best results. The large counter displays sometimes seen which hide customer and clerk from each other are unnecessary. They take too much merchandise, are too fragile, and serve no real selling purpose. The small counter display is equally effective, allows more merchandise to be shown, and makes more sales. Care should be taken, therefore, not to make counter displays too high or to put them too close together, thus destroying the contact between customer and salesperson.

Manufacturers are coming more and more to realize the advertising and display value of the package, and the designing of these packages has become an art in itself. The chain store should take full advantage of the selling value of these packages in arranging its shelf and counter displays. In a self-service store, for example, which retails food products, the package practically makes the sale itself. If the chain makes its own private brands, it must take the utmost pains to see that the package design is equal to that of rival nationally advertised products. Here the price ticket is of extreme importance, particularly as it will inevitably be compared with the price of competitive goods designated on the shelves.

Show Cards and Signs.—Cards and signs are silent salesmen. They must, therefore, be clean and neat, give all requisite information, and be true to facts. The average customer who buys from a chain store does not have to be convinced of the value of a given article by a long sales talk. The sight of the article itself and the descriptive placard are the major instruments in making the sale. Chain stores need many signs. The five-and-ten-cent store does practically all its selling by means of small descriptive signs. Articles, the use of which might not be thoroughly understood, are carefully described, saving time and expense by cutting short the selling process and eliminating questions and answers in so far as possible.

The window show card and the counter card must fulfil certain requirements. They must tell the customer everything necessary in the time that it takes for him to pass. If it is too long, it will be useless because it will not be read; if it does not contain enough information, it will prove equally ineffective; Fig. 26

illustrates some of the cards used by the L. K. Liggett Company. These are all uniform in size, conforming to the policy of standardization. While color is useful, it should not be so pronounced



FIG. 26.—(Chain Store Age, June, 1926.)

as to detract from the sales appeal of the goods themselves. One price only should be put on one card. Two prices make the customer ask questions, and it is better to use two cards.

Experts recommend that the words "and up" should not be employed because they are confusing and likely to mislead customers. If the card says \$1 and up, and there are only a few articles at \$1 while most of them cost \$5, then the customer will be likely to think he has been deceived.

It is important to remember that cards can be prepared quickly and can help a great deal in adding to the timeliness of a given display. In a drug store, electric fans may be featured during a hot spell and hot-water bottles during a cold spell. If cards are kept on hand and a rain storm comes up, rubbers can be quickly featured.

Superintendent of Display Mitchell, of the L. K. Liggett Company, points out how valuable the inclusion of the words "you" and "yours" is. By featuring "your home," "your baby," or "your happiness," the human-interest touch is added. A sign labeled "Cameras \$3" will not sell nearly so many cameras as a sign worded "Buy your little boy or girl a camera, \$3.50. Makes a picture like this." And in the same way "Let us Enlarge your Favorite Negative," is far better than a sign

*Buy Your Mother
A New
Hot Water Bottle*

*He Will Enjoy A Box
Of These
Good Cigars
\$5.00*

*Surprise The Folks
Take Home A
Brick Of Ice Cream
Pint size, 30c. Quart size, 50c*

SOFTEN UP YOUR
WHISKERS
With
BAY RUM SHAVING
CREAM
30c

TAKE SEVERAL OF THESE
GOOD BOOKS
WITH YOU ON YOUR
VACATION
75c each

A PEN YOU WILL ENJOY
USING—
THE WRITEWELL PEN
\$1.

*She Expects A Bottle
Of This
High Grade Perfume*

FIG. 27.—(Chain Store Age, Aug., 1925.)

reading simply "We Do Enlarging." Examples of the way Mr. Mitchell words his signs are given in Fig. 27.

Supplying Display Cards.—Every chain is interested in the best method of preparing and supplying its display cards to the various stores. Sometimes a chain headquarters supplies only staple signs, allowing managers to get their own special cards. The aim of most chains is to supply all the cards used. Headquarters should always decide whether display material offered by manufacturers should be used.

There are four methods ordinarily used in the manufacture of store signs, and the particular chain must choose the method which will suit best its purposes. Signs may be lithographed, printed, screen processed, or die stamped (embossed).¹

Lithography is used mainly by larger chains. The United Cigar Stores Company and the L. K. Liggett Company both have complete lithographic plants of their own. To make the investment pay for itself, enough cards must be used to keep the presses running constantly. Runs of cards must be large enough to pay for themselves. Furthermore, these cards must be prepared some time in advance and, consequently, chain grocery systems whose products change in price frequently find lithographing unsuitable to their purposes. One method of avoiding this difficulty is to use the so-called "flexible" sign, which leaves a space where the price can be added later. Since the articles sold by the United Cigar Stores Company and the Liggett concern fluctuate but little, lithographing, with its color possibilities, offers the best method. The H. C. Bohack Company, with its 400 member stores in and around New York, employs its own lithographic artist to trace the signs on zinc plates which are then sent to a lithographing company for finishing.

Printed signs, made either from type or from zinc engravings, are used by all chains. It is often cheaper for grocery chains to purchase price cards for shelves and trays from firms making a speciality of such equipment.

The use of the screen process is profitable when 25 or more cards are to be made. One man in a short time can produce

¹ See excellent article on store signs, from which material for this section has largely been taken, in *Chain Store Age*, December, 1926.

a large number of signs in color at about one-quarter the cost of the hand-made sign. The National Tea Company, of Chicago, employs this system, which resembles stencilling in that the excellence of the copies depends on the excellence of the original.¹

The embossed or die-stamping process is used chiefly for card signs of a permanent nature. Outfits cost from \$200 to \$500, depending on the size of the sign to be turned out. This system has the advantage of producing signs which are immediately available for use, and is recommended for clothing, hosiery, hat, shoe, and candy chains, all of which employ small price tickets rather than large signs.

Conclusions.—It will be noted that nothing has been said in this chapter on how to dress a window. The discussion has been merely on general principles as to display. Window trimming is an art in itself. If any readers of this volume desire further information they can find it in the *Window Display Handbook* written by W. N. Taft, editor of the *Retail Ledger*.

The chapter aims to emphasize the extreme importance to the chain of display, and the desirability of putting the window display especially in charge of an expert. While display is an art in itself, founded in its essentials upon a knowledge of psychology, it must always be an art with a material goal. Display must be designed to sell goods—not merely to attract attention or to draw a crowd. Its effectiveness is measured by profits. The appeal, therefore, must be suited to the audience, and, since the majority of the chain store audience is still charmed by the idea of low price, utility, and quantity, the art of chain store display is somewhat restricted. In many ways, this is fortunate, as few motives for purchase are so strong as those which derive their strength from the “bargain” idea. Hence the importance of including always the price of the goods on display, and the effectiveness of those old, well-tried, and successful expedients of the odd-price, the time limit, and the “loss leader.”

¹ According to Bert Zahn, in charge of sign department of the National Tea Company, it costs a maximum of \$500 to instal a completely equipped department for screen process including necessary tables, drying racks, and initial supply of paints. He advises a room about 35 by 50 feet.

CHAPTER XIV

ADVERTISING

Ten years ago it was the exceptional chain which advertised, but this is no longer true. Advertising has become an integral part of chain store merchandising. This great change has been due to a number of factors, due partly to the evolution of the chains themselves and partly also to the growth of the science of advertising, and its natural extension to the field of retail merchandising.

To advertise extensively and effectively, a chain must have attained a certain size. If it is to use the media of national advertising, then its stores should cover the areas of the magazine circulation. Even if it is to use space in newspapers, it must cover fairly well the circulation area involved if it is to prove profitable. Rapid expansion of store units has enabled many chains to advertise in ways which before had been impossible. Instead of "point-of-purchase" publicity, or even handbills and "dodgers," they have gone to the newspapers.

In the beginning, chain advertising in newspapers featured price alone; much of it still does and must inevitably do so. There are many chain executives who believe in the policy of the retailer who clipped the advertisements of his largest competitor, cut out the name, marked in with a red pencil prices 1 cent lower for each item featured, and pasted them in his windows. Chain store advertising, however, is no longer so simple a matter as it was, chiefly because of the increased competition between chain and chain. As long as the independent owner was the chief competitor, advertising, beyond featuring the price appeal, was unnecessary. Competition between chains, however, as pointed out elsewhere, cannot continue long on a price basis. Merchandising procedure is too closely standardized to permit of one chain's obtaining any marked advantage in this way. Advertisers are coming more and more

to the opinion that it is in stressing the institution, the services which it renders, the things which it stands for, and the fashion in which it is organized, that the chief profit lies. While the chain store must remain, to a great extent, in the class of the price advertiser, other points must be stressed if the chain is to build up a regular clientele of customers.

Does Advertising Pay the Chain Store.—Beyond the fact that advertising is now regarded as advisable by all, or nearly all, chains, there is little unanimity of opinion. As yet there is little knowledge of the exact benefit which advertising confers. The United Cigar Stores say they have never been able to tell whether advertising paid or not. It was long a custom to set it down on the books as a total loss, because it could not be traced. The Childs Company, on the other hand, stated that, as a result of advertising conducted by them, the average check in their restaurants was increased from 25 to 45 cents.

Advertising should do two things: it should sell goods and build up goodwill. One authority says, "Good advertising consists in presenting your message to as many prospective customers as possible at the most reasonable cost, and in a way that will attract their attention and bring them to your store." The best form of advertising will inculcate in the customer the habit of patronizing a particular chain, and to do this it is not alone necessary to offer price bargains but also to convince the customer that his or her regular patronage will be profitable.

Price advertising will be profitable only so long as a competitor cannot meet it. As soon as competition on a price basis becomes so stabilized that no substantial advantage can be gained by emphasizing price reductions, the advertising appeal must be shifted. It is essential then to sell the organization to the customer. This must be done carefully, truthfully, and repeatedly. The advertising must always be suited to the character of the competition. Thus, in small towns and villages, the chief advertising media will be broadsides, package inserts, window pasters, and perhaps direct mail. Here, other factors enter the equation, notably the personality of the local manager which often makes or ruins the reputation of the chain in the neighborhood. In the larger towns and cities the newspapers

will be the chief advertising medium, supplemented by the usual store publicity.

There are undoubtedly instances of chains which can still make satisfactory profits with little advertising. But the trend is toward greater advertising expenditures. The consumer's warrant against their becoming too great, lies in the nature of the products which the majority of chains sell. That is, the price of the product will always be a major factor, and no chain will find it profitable to spend so much money in advertising as to force the price of its products above that of competitors. The retailer is in a different position from the manufacturer. In the majority of cases, the former is not selling his own goods; but rather goods of known quality and name, which are in frequent demand by consumers. If he does not meet price competition, his advantages of location and display will not assure him sufficient turnover.

The Chain as an Advertiser.—It is impossible to say exactly how much a chain should spend for advertising. Some attempts have been made to compile the percentage of gross sales spent in advertising. Figure 28 shows what the Chamber of Commerce of the United States estimates is spent by various types of retailers which are not chain systems. These may be compared with the following figures for chain systems obtained by questionnaire methods:¹

TYPE OF CHAIN	PERCENTAGE OF GROSS SALES SPENT FOR ADVERTISING
Grocery.....	0.4 to 1
Drug.....	1.5 to 3.5
Clothing.....	3
General merchandise.....	1.5
Shoe.....	5
Automotive.....	5
Optical.....	10 (usually high)

It is evident that, as competition increases, the percentage of sales going into advertising will increase even more than the present figures show. The chain will find itself in much the same position now occupied by the department store. It must

¹ See article by Carl Reimers, president Reimers & Osborn, Inc., in *Printers' Ink*, Mar. 18, 1926.

obtain a reputation in the community for fair dealing and honest values.

			COMMON FIGURE PER CENT
Grocery store sales:			
Less than	\$	30,000.....	0.2
\$	30,000 to	49,000.....	0.2
	50,000 to	99,000.....	0.3
	100,000 to	149,000.....	0.3
	150,000 and over.....		0.3
Shoe store sales:			
Less than	\$	30,000.....	1.6
\$	30,000 to	49,000.....	2.1
	50,000 to	99,000.....	2.2
	100,000 to	249,000.....	2.8
	250,000 and over.....		3.8
Department store sales:			
Less than	\$	250,000.....	1.7
\$	250,000 to	499,000.....	2.2
	500,000 to	992,000.....	2.9
	1,000,000 to	3,999,000.....	2.9
	4,000,000 to	9,999,000.....	2.9
	10,000,000 and over.....		3.2
Jewelry store sales:			
Less than	\$	20,000.....	2.6
\$	20,000 to	49,000.....	2.9
	50,000 and over.....		4.3
Drug stores.....			0.7
Specialty stores.....			3.4
Hardware store sales:			
Less than	\$	25,000.....	AVERAGE 0.66
\$	25,000 to	40,000.....	0.65
	40,000 to	60,000.....	0.79
	60,000 to	100,000.....	0.71
	100,000 and over.....		0.70
Clothing stores.....			1.98

FIG. 28.—Estimated expenditures for advertising of various types of independent retailers, as compiled by the Chamber of Commerce of the United States. These should be compared with figures for chain stores given in the text.

The majority of chain store advertising now appears in the newspapers, and must continue to do so. In the grocery field, it is estimated that about two-thirds of the advertising appropriations are used for newspaper advertising, practically all of the

price character. In the drug field, probably the same ratio holds true. Of the remaining third, the majority goes for window-display work.

The size of space used is fairly large. Full pages are not uncommon. Grocery advertising is inserted regularly, perhaps twice a week; drug chains do not advertise quite so frequently. It is more and more evident that only the large department store will be able to compete in size and regularity of appearance with the chain. No other type of retailer can afford to spend the money. By means of the newspaper, an urban chain can announce and dispose of a fortunate purchase as readily as can the department store.

Handling Advertising.—The advertising of the chain organization is usually handled at home. While the advertising agency has taken a definite place in the merchandising program of the average manufacturer, its place in the chain field is not clearly marked. Most agencies show a tendency to keep away from local copy, and much of the chain store advertising is necessarily local copy. Keeping in touch with local conditions is much more easily handled by a department of the chain's own organization. Institutional advertising for chain stores has been conducted successfully by agencies, but when it comes to merchandise advertising the chain management seems to prefer to have someone directly connected with the company do the work.

The next problem to be considered is as to whether local managers shall handle the advertising, or whether it shall be centralized at headquarters. In almost every case advertising should be a central office job, although there are arguments on both sides. The local manager, for example, often feels that he is best able to control and judge requirements for advertising, but he is looking at only one side of the question. While the actual advertising space costs the same no matter where the copy originates, it should always be remembered that advertising is a specialized activity and that the average storekeeper is not a good advertising man. From the standpoint of quality of advertising, every argument is in favor of the expert at headquarters. In the second place, the cost of writing copy and preparing art work is much cheaper when prepared at headquarters.

It should be remembered, however, that it is highly important to keep in touch with local units. The advertising manager may visit various sections of the country, or he may obtain his information from district managers, through personal meetings preferably, or, if not, through correspondence. One point to remember in connection with handling advertising through headquarters, is that in this way local managers do not have time wasted by solicitors trying to sell them advertising. Furthermore, it is much easier to refer requests to advertise in school papers, or amateur theatrical programs to headquarters than to incur prejudice through outright refusal.

The chain may find it advisable to employ a contact man to look after local conditions and to travel constantly for this purpose. The contact man verifies the opinions of the local managers and analyzes the situation.

The Advertising Department.—In some chains the advertising department is separate from other departments, while in others it is attached to the merchandising department. This depends a great deal upon the size of the chain and upon the policy adopted in regard to handling advertising. In some chains advertising is under the direct control of the general sales manager, who takes care of sales in all the branch stores. In smaller chains the sales manager may handle the advertising himself. The advertising of the Great Atlantic & Pacific Tea Company is handled from headquarters in Jersey City, although the organization as a whole has been decentralized and divided into sales districts, each in charge of a general superintendent.

The window dressers may or may not be attached to the advertising department. They may be part of the sales department or of the merchandising department. But in any event the closest cooperation must exist between the advertising and the other departments.

The personnel of the advertising department may vary from the department in which one man does everything to the large chains where there is a manager, an assistant who looks after the copy, a research department, an artist, several photographers, copywriters, and perhaps the window-trim experts. Some chains find it profitable to operate their own printing plant to get out placards, notices, handbills, price lists, circulars, and all the

other printed matter necessary in the routine work of a large chain.

Advertising Procedure.—Where newspaper advertising is done, the ordinary practice is to prepare copy at headquarters and to send electrotypes to local managers for insertion in the local papers. Full instructions are given as to the position of the advertisement, the days it is to run, etc. Naturally, this newspaper advertising is closely coordinated with the weekly sales specials or whatever products the company wishes to feature at the time.

The branch manager is responsible for inserting the copy in the local papers. In some instances, branch managers are allowed to write their own copy and arrange for space. In other chains the branch managers are allowed a certain percentage for advertising. Many chains employ a specialist whose duty it is to buy space in papers. They do not care to leave this to the branch manager whose experience in this line is likely to be limited.

Counter cards, window-display cards, signs, circulars, hand-bills, price lists and pamphlets are prepared by the advertising department, as a rule, although they may be decided upon with the aid of the sales or the merchandising departments. Usually they are sent to all stores simultaneously. The managers of the Federal Bakeries have an opportunity to order what they wish of sales promotion matter prepared by the merchandising department.

When advertising is decided on at the central office, it is usually done by conference. Various plans are submitted and the best one chosen. One of the determining factors in this, as in so many other chain matters, is the records of what happened in previous years under certain conditions. The records tell not only the kind and the character of the advertising, but also the products advertised and the actual results obtained.

It is an excellent plan to call into this conference members of the sales and merchandising departments. Their suggestions can frequently be used to advantage and objections are much easier to rectify when they are made at once than after everything has been settled upon.

It is important to have new ideas, not only because the public expects them, but because of the stimulating effect on the whole

organization. Not only the public but the personnel also feels the benefit of a distinctive sales policy.

Some chains have tried a scheme whereby the advertising is blocked out at headquarters and space left for the local manager to insert local copy. At best, this is dangerous policy, because the local manager may or may not be competent to do this. Some chains have a number of advertising men attending to districts. If competition is particularly strong in some city, they have authority to run advertising more frequently. They take care of all space buying and positions in the papers.

The manner in which the J. C. Penney Company has worked out the problem of centralized advertising control with allowance for local variations is of exceptional interest.¹ This company, which spends over \$1,250,000 a year for the publicity work used by approximately 700 stores, has, in the first place, certain company regulations to meet. It is the policy of the company to conduct no sales, to run no comparative prices, to engage in no bargain and price advertising. In other words, the merchandise is offered at prices, which, are as low as is consistent with a fair profit, yet do not stress the bargain idea. On the other hand, institutional copy is included in practically all advertising. Since the stores select their own stocks, there is no uniformity of merchandise offered for sale.

The first plan evolved by the advertising department was to make complete advertisements in three different sizes and to send these in mat form to every store. It was quickly found, however, that it was extremely difficult, if not impossible, to prepare an advertisement which all stores could use profitably. Even if all stores carried the merchandise advertised, some stores were sure to be compelled to use space out of all proportion to the importance of the merchandise in their particular locality. Furthermore, it was found that in many places the newspapers could not handle a six-column advertisement; the widest being mats four columns wide.

The department then worked out the unit system, which allows the individual store to use advertisements in whole or in part. Figure 29 shows a sheet from the regular mat service

¹ See article by R. L. Whitman, advertising director, J. C. Penney Company in *Chain Store Age*, April, 1926.

"Pay-Day" Work Shirts

The Union Label on Every One
Coat or Closed Style. Cut Full

Favorable market conditions and
our enormous mass buying makes
possible this low price—

79¢

The Union Label is on every Shirt—
more high grade workmanship and materials,
and that they are made in clean, sanitary
workrooms.

Coat or closed style; continuous faced
sleeves; double cuffs and double
collared, cut extra full, reinforced at all
important points.

Made of fine and extra pure, strong cotton,
blue or grey. All sizes, including 36 and
Extra Sizes.



Low Price and Big Value in Which
All Our Stores Share

Men's Work Shirts

Here is Value—Outstanding and unmistakable—even
for our stores—especially at the low price of—

All
Sizes
14 to 17



49¢

Well-made of Indigo Blue chambray—
soft, standard size, long, full-length sleeves,
1's snap pocket and four-button front.

Made in clean, sanitary work-
rooms by well-paid, skilled work-
men—True Workmen of America's
great army of artisans.

Extremely good shirts that we can con-
fidently recommend—they will make good
with Real Men.

"Pay-Day" Overalls

Big Value—Union Label—Low Price!



\$129

For
Overalls
or Jumps

Our Mass Buying for 676 Store Stores
makes possible this Low Price—

—Union Made—the Union Label is on
every Overalls and Jumps; of 220 Double
—Triple seam (heavy) cut extra full. The
Overalls has suspender or flange Over-
alls Back.

—Ties big, true size, watch and radio
pocket—looked to personal comfort, all
size including Extra Long.
—Jackets to match, with regular shoulder
and Chestnut Collar.

Look for the
Union
Label on
"Pay-
Day"
Overalls



Men's Footwear

In a Featured Week

Summer Comfort



In these Men's and Young Men's
Tropical Suits Without the Sacrifice
of Style—the Style is BUILT-
IN—they're Shape-Retaining.

Yes! I'LL LOOK cool and you'll BE cool in one
of these featherweight, stylish, breeze-inviting
and heat-rejecting Tropical Suits. The only
amendment to owning one for hot weather is to
OWN TWO OR THREE.

These suits help you face busy Summer
Days—of work or play—with confidence.
In shades of grey, brown, tan and blue—
plain and striped effects.

\$1190

Other Hot Weather Suits
at \$9.90, \$13.75 to \$22.50

Outfit the Boy Now!

Spring Outfit—Suit with Long Pants and Knickers,
Cap, Shoes, Hose, Tie, Belt, Shirt, Complete

\$1290

Some fellows like to wear Lampoon,
and change off to knicker. These suits
have one pair Long Pants and One Pair
Knickers. There is Value, Quality,
Style and Low Price in every outfit,
the result of our large Buying Power.

Best-looking spring outfits in new
Spring patterns and colors. Every suit with
One Pair Long Pants and One Pair Knickers
and Vest. Suits 7 to 17 years.

Shirts—Black or Striped Oxford or High
Cotton.
Hose—Black or cotton. Dark for
Shirts. Our "True Blue" make, synthetic
or chamois.
Belt—Black of corduroy, cotton-ribbed,
leather, velvet and ribbed.
Knickers—Knickers, cut side four-in-hand
or "Jaw" style.
Cap—One-piece or pleated; Spring fab-
rics and colors.



Tropical Clothes

For Men and Young Men

Shape-retaining—breeze-inviting—heat
repelling Summer Suits that make you
laugh at the hottest days.

Men's and Young Men's two-button model
in Genuine Palm Beach cloth—newest shades
of grey, brown, tan and blue—plain and fancy
weaves—single and double stripe effects.

The secret of comfort in Summer is in wear-
ing suitable clothes. THESE SUITS ARE
RIGHT! See them! Buy them! Wear them!
Young Men's Sizes, 36 to 42; Men's Sizes,
44 to 48.

\$1375

Other Summer Suits at \$9.90,
\$11.90, \$16.75, \$19.75 and \$22.50.

Men's Easy Comfort Shoes



Cushion Insole

So soft, so pliable these
buckwheat-soled shoes are
perfect for all-day wear.
In a variety of styles. Our
price leaves you money!
See them here! One of our
most exceptional values
at \$7.95.

\$0.00

Comfort Shoes For Men

Built In Cushion Insole



Here is one of our featured shoes for men. Of
selected black, tan, navy, pliable and comfortable.
Goodbye writhing, rubber heels.

The Cushion Insole assures you the extreme
of comfort without the sacrifice of style or
good looks.

For shoes so made to suit existing conditions and
as an original value. Our mass buying makes you
able the low price.

\$0.00

Buttonless Pajamas

No Buttons to Come
Off on These

Our Own Exclusive Make
for Men—Low Price

\$149

Of soft-ribbed rayon, or
cotton, cream and white. Cut
extra full on our J. C. Penney
Co. Jumbo pattern.

Loose, cool, comfortable,
buttonless, with neck which
will not gap open, buttonless
front.

The best made in 36 to 42
inches. Best of all it has
no buttons to come off or
button arm—used only in
the front.

Five Qualities
at \$1.99 and \$2.99



Buttonless Pajamas

Our Own Brand—Cut Extra Full

Cut extra full on our Jumbo
pattern. Loose, cool, comfort-
able. Our own exclusive make
sold only in our own stores.

Of soft, buttonless
rayon, or cotton,
middy cut, with
neck that fits with-
out gaping, neck,
buttonless front.

The new and practical
design is a night-
gown in button to top of
all made and comfortable
at values—

\$1.49

Five Qualities at \$1.99 and \$2.99

Buy "Pay Day" Overalls

Big Value for Workmen

\$129



Union Made—the
Union Label is on
every Overalls and
Jumps—of 220 Double

—Triple seam (heavy) cut extra full. The
Overalls has suspender or flange Over-
alls Back.

—Ties big, true size, watch and radio
pocket—looked to personal comfort, all
size including Extra Long.
—Jackets to match, with regular shoulder
and Chestnut Collar.

sent out twice a month, consisting of advertisements which are, in themselves, complete units to be employed by the individual stores in making up advertisements to suit their needs.

Figure 30 shows a layout sheet which helps the store advertising man, in the case of this chain usually the first or second assistant manager, to make up his advertisement effectively. In case of openings, removals, or enlargements, a store can call on the central advertising department for special individual service.

The Question of National Advertising.—As soon as a chain obtains store distribution throughout the country, or even a major portion of it, the question comes up immediately as to the advisability of advertising in periodicals with nation-wide circulation. While this question in the past concerned mainly manufacturers' chains, such as the Douglas, Walkover, or Regal shoe concerns, it has since come up before chains which are engaged in nothing but retailing. There seems to be a regular progression from window display, through newspaper advertising, to national publicity.

The F. W. Woolworth Company was probably the first strictly retailing chain to advertise nationally, running column advertisement in women's magazines to feature Woolco knitting cotton, or hair nets. It is doubtful whether such sporadic advertising, stressing one particular article, was of great profit to the company, and it was but a step towards the later policy of advertising the organization rather than the merchandise. It seems to be generally accepted that, if a chain advertises nationally, the underlying idea should be the organization itself, its size, its policies, or its methods. Thus the Great Atlantic & Pacific Tea Company and the J. C. Penney Company, Inc., run institutional advertisements in national periodicals and price advertising in newspapers.

Institutional Advertising.—The idea behind all institutional advertising is that one chain is very like another in the same field, that the merchandise is much the same, that the prices are fairly equal, in other words, that the tangible advantages on one side are balanced by the tangible advantages on the other. The chief possession of the chain—that which differentiates it from other chains—is its policy of service. Chain store service is not like that of department stores. It does not consist of free

deliveries, credit, rest rooms, auditoriums, and the like. As J. M. Fly, former president of the National Chain Store Grocers Association, points out, the chief service of the chain store to customers is in buying and not selling; in supplying from conveniently located stores what the public wants. It should, therefore, sell this service to the consumer, overcoming in this way the absence of personality so often attributed to the large corporation, combatting popular prejudice, showing how the admittedly mighty power of the great chain organization is used for the public benefit.

Many chains are doing this; some of them because they have determined this is what the public wants. Before the Great Atlantic & Pacific Tea Company embarked on its ambitious schedule of national advertising, it made a careful investigation and secured opinions from 87,000 customers, by means of a prize contest. It was determined in this way that the company should not feature one of its products, as had been suggested, but rather the service which it rendered.

Figure 31 is an extract from one of the advertisements written by M. B. Skaggs for his chain of grocery stores. This is institutional copy at its best, answering the charge that the size of a chain is a menace, and showing how the chain's power for service must be used in the public service.

Copy for the Institutional Advertisement.—Institutional advertising does not aim to sell any specific merchandise or to increase the sales of any one store. It is designed to present to the public the idea of the system. It will serve eventually as a background for merchandise advertising.

The trained advertising man will see almost immediately a variety of themes on which to build an institutional campaign. Figure 32 tabulates 11 different points intended for grocery-store advertising, the majority of which will serve for other types of stores almost equally well. Figure 33 contains a similar series of ideas actually used by the Schulte Company some years ago. The object of this series was to endeavor to convert the convenience purchaser into a regular customer. It was recognized at the outset that tobacco was purely convenience merchandise, and the best that could be done was to create such an impression on the prospective customer that he would, matters of location

"The elephant is a mammoth beast, equally capable of much good or much harm—according to the manner of his handling.

"In him is latent almost unlimited power for service or for destruction and the channels into which his great strength shall be guided are matters for the determination of the man or men into whose keeping he is given.

"Likewise, the great Mallet type of locomotive—roaring down the track with its string of cars flashing after it like the tail of a comet—is a potent factor for destruction unless the man at the throttle is cool-headed, steady-nerved and of unswerving righteousness of purpose.

"But, unless the engineer should have suddenly gone mad, he will be true to his trust and guide his train and his passengers through to safety if for no other reason than because he realizes that to do otherwise means his own destruction as well as the destruction of the mighty power which he controls.

"It is true that great organizations, such as Skaggs' stores, represent a mighty power, and much has been said—by those who lacked information, or who had given the matter but slight thought or who were inspired by a misconception of their own self-interest—about the potential menace which this power constituted.

"To realize the fallacy of this argument it is only necessary to reflect for a moment upon the self-evident fact that the man or men capable of building these great organizations must be possessed of at least a normal amount of common sense. And, being possessed of ordinary common sense they have only to look back over history to realize that the slightest abuse of the power which they control will inevitably result in the ultimate destruction of that power and themselves with it.

"In the mass effort, represented by such organizations as Skaggs' stores, guided by sound and constructive policies, lies the greatest opportunity for genuine service and individual accomplishment. Motivated by the right impulses and destined for a definite goal—the goal of the maximum in service and efficiency—there is apparently no limit to the splendid results which is within their power to produce.

"And these results need not all be material—although we have found that the public is generous, even liberal, in rewarding its real servants—they can be and are deeply gratifying to the soul as well."

FIG. 31.—Extract from an advertisement written by M. B. Skaggs, to show how the chain, instead of being a menace, is in reality a great potential power for good.

1. The chain store has nothing to hide. The whole store is open for your inspection; you see what you buy.

2. The chain store has fresher stock because, instead of having some of everything on the shelves and a duplicate stock in the back room to ship from, all the goods are in one place. Moreover, the chain's inspection system keeps stocks down and keeps everything fresh.

3. Chain stores have a more reasonable system of refund, because the chain store office deals direct with the canner or manufacturer and can get a credit allowance directly, instead of working through the jobber and broker back to the canner.

4. Everything has its price tag. You know just what your savings are. You can make up a shopping list from your daily newspaper.

5. Children are handled more courteously in most chain stores than in independent stores, because the clerks aren't busy driving a truck or taking orders over the phone.

6. In chain stores you deal with a healthy, honest American manager or with a clean, intelligent woman clerk. The personnel standards of chain stores are high.

7. No one attempts to pad your order or send you inferior merchandise when you select the goods yourself at a chain store.

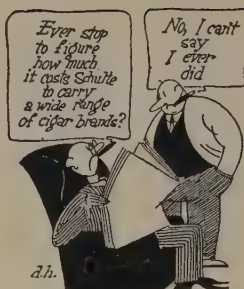
8. Nothing is more important than your family's health, and in a few minutes each morning you can do your marketing and get fresh things for your family's lunch and supper.

9. You not only enjoy this exercise, but because chain store customers are the honest folks who pay their bills and aren't throwing a bluff, you meet some of your nicest friends at the chain store.

10. By paying cash for everything you relieve yourself of considerable worry and know that you are always even with the game.

11. Because every branch of a chain store has the same prices, you can, if you are visiting or out to afternoon tea, stop in at any store of that chain and receive the same courteous treatment as if you went back to your own neighborhood to trade.

FIG. 32.—Specific talking points which chain stores may use as the basis of advertising copy. Suggested by Fred B. Barton in *Chain Store Age*, May, 1927.



Our job is to sell you your favorite cigar—and it's a mighty big job, too.

—Which is your favorite? We don't know—and so we have to carry about every brand there is, lest you stump us.

Naturally, this takes sizeable resources. It takes capital. It takes organization, and a perfect scheme of distribution... We have 'em!

And that's why we always have the cigar you ask for. Ask us!

A. SCHULTE CIGARS 270 Stores

From Maine to Texas—and Growing!



We have all the time in the world. And, also, all the speed.

You're the one who determines how fast—or how slow—your purchase is to be made.

If you're a deliberate picker and a careful chooser, don't feel that you have to hurry on our account.

But if you habitually shop by the stop-watch, we'll split a second with you any day!

It's all up to you—our friends—to decide the speed you want.

A. SCHULTE CIGARS 270 Stores

From Maine to Texas—and Growing!



The public—not ourselves—call us "the friendly cigar stores."

Please don't think that we try to get chummy, or that we slap you on the back with every purchase. It's simply that we try to make the atmosphere of our stores pleasant—cordial...

We don't crowd you in—we don't rush you out. We don't try to sell you things you haven't asked for. And we always remember that we're dealing with gentlemen.

If that's *friendliness*—well then, we're proud of it

A. SCHULTE CIGARS 270 Stores

From Maine to Texas—and Growing!



It's pleasant to step into a Schulte Cigar Store—and to find yourself in a real Cigar store!

We are tobacconists, and we pride ourselves on selling really good cigars, cigarettes, and the smokers' articles which are legitimately within our province.

Our stores are bright, roomy and pleasant—and though we serve you rapidly, we don't rush you out with hustle and bustle. The atmosphere is pleasant—friendly.

—That's the word—friendly.

A. SCHULTE CIGARS 270 Stores

From Maine to Texas—and Growing!

Fig. 33.—Analysis of ideas behind series of advertisements used by the Schulte Stores, featuring the service rendered by the chain rather than the price of merchandise. (*Chain Store Age*, July, 1925.)

and price being equal, patronize the Schulte unit rather than its competitors.

For a dry-goods chain the institutional element is exceedingly important in advertising. It definitely serves to increase consumer goodwill. W. A. Wiebolt and Company, operating three department stores in the outlying districts of Chicago, has found fourteen separate points to be emphasized in its institutional publicity:

1. Store service and policies.
2. Purchase of merchandise from world's markets.
3. Four hundred annual trips to markets made by buyers.
4. Combination of style and price in merchandise offerings.
5. Delivery system.
6. Working conditions for employees.
7. Accuracy and reliability of store advertising.
8. Accessibility and convenience of store locations.
9. Guarantee that merchandise is satisfactory.
10. Annual sales volume of \$20,000,000 as evidence of public approval.
11. Nation-wide buying power.
12. Consistent prices in stores.
13. Scientific displays of merchandise.
14. Comfort, space, and safety in each store.¹

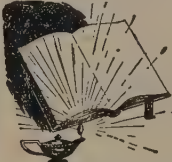
Figure 34 illustrates how some of these ideas are carried out in actual practice.

Figure 35 shows one of a series of advertisements of the Waldorf System, Inc., operating a chain of self-service lunch rooms, which was run in the newspapers. The same advertisement appeared in a different Boston paper each day during the week. Two weeks after the insertion of the advertisements in the Boston papers, the same advertisements were started in 15 outlying cities. The idea behind this plan is that many people outside Boston read the Boston papers, and that these people would see the advertising when it appears in these papers. Two weeks later they would see the advertisement in their own hometown paper and, by force of repetition, the advertising appeal would be so much the stronger.

This advertisement shows what may be done with newspaper advertising in the way of creating the desired atmosphere. Although written some years ago, it still possesses the quality of

¹ For further details see *Retail Ledger*, second issue, June, 1927.

HOW YOU ARE SERVED BY THE WIEBOLDT STORES



No. 1

of a series of informative articles dealing with the service policies of The Wieboldt Stores

SERVICE in The Three Wieboldt Stores is of primary importance. The word "Service," like a diamond, is many-sided. It stands above all for "due which promotes happiness." It means unselfishness, subordinating immediate gain to future confidence. It means speed, variety, utility, beauty, courtesy, style, honesty, SERVICE.

It will be the intent of these articles briefly to outline how The Three Wieboldt Stores work with one purpose, to serve their friends. We hope, by explaining our organization, to bring about a closer relationship with our customers.

We want you to know us for three reasons. First, because friends should understand each other. Second, because in our effort to serve you we have developed an institution which represents supremacy in organization coupled with merchandising international in scope. Third, our stores, our methods, our policies are different and interesting.

Copyright 1937, W. A. W. & Co.

HOW YOU ARE SERVED BY THE WIEBOLDT STORES



No. 6

of a series of informative articles dealing with the service policies of The Wieboldt Stores

I WOULD like to join your salesforce," said a letter which we received recently. "I am an experienced clothing salesman. I will be entirely frank. I am well paid in my present position, but I am greatly attracted by the opportunities in your organization. You advance from university graduates.

"Your 9:30 opening hour will enable me to be more with my children. The employees' insurance will greatly please my wife. Your location, enabling me to avoid loop rush hour traffic, will help me preserve my health.

"Though I understand that you employ as many as 3,000 people, still I hope you will consider my application."

Short hours, happy surroundings, opportunities for advancement and fair salary scales make Wieboldt employees eager to render you good service.

Copyright 1937, W. A. W. & Co.

HOW YOU ARE SERVED BY THE WIEBOLDT STORES



No. 9

of a series of informative articles dealing with the service policies of The Wieboldt Stores

SERVICE means protection. Wieboldt service stands like a protecting wall around you. From blankets to hosiery, from hats to shoes, from moves to upholstered furniture, the truth follows Wieboldt customers.

"All-wool" on a Wieboldt ticket means "all-wool," "pure silk" means "pure silk." Blindly trusting the claims of others is not part of our code. Textiles and other goods are subjected to expert inspection. We test for chemical impurities, fast colors and tensile strength.

Our price tags carry full information. Furniture tags, for example, tell you the name of the wood, and if it is veneered, the nature and quality of the upholstery, the construction of the frame, everything which will help you to buy judiciously.

Wieboldt service protects the customer by testing goods and by giving full, accurate information.

Copyright 1937, W. A. W. & Co.

HOW YOU ARE SERVED BY THE WIEBOLDT STORES



No. 13

of a series of informative articles dealing with the service policies of The Wieboldt Stores

HOW do you shop at Wieboldt's? Do you first buy a carpet and draperies, and then a lamp and chairs? Perhaps you were among the hundreds of customers whose buying habits our investigators studied so closely. Statisticians from the planning department followed hundreds of shoppers about the stores.

Their study of your shopping preferences dictates our store arrangement. It dictates the way we display goods, for they found that customers like to buy some articles from counters and tables, others from shelves and cases, all scientifically built for attractive display and for clearlines.

Big, beautiful windows, broad entrances, wide aisles, everything that makes for ease and accessibility was planned after prolonged study of our customers' tastes. Our customers are constantly teaching us new methods to better serve them.

Copyright 1937, W. A. W. & Co.

FIG. 34.—The four advertisements reproduced above form part of the institutional series used by the W. A. Wieboldt and Co. stores in Chicago daily papers. These advertisements (copyrighted by the Wieboldt Company) are also distributed in booklet form to prospective customers and are used as a text book for salespeople in the training department of the firm.

interest which is so essential if the advertising is to be read and remembered.

The Piggly Wiggly Company has done a great deal along the lines of institutional advertising. Figure 36 illustrates how the company turns some of its ideas into institutional copy. Here

The Waldorf Way

My wife has the honor of being the first contributor to this column of common sense.

"I don't suppose you realise she said to me, 'How many thousand men and women are rushing around doing noon-hour shopping' these days. Just imagine how many of those people buy Christmas presents they don't exactly like, simply because they haven't time to go to another store!"

"Well, what's the answer?" said I, suspiciously.

"Why, the Waldorf Lunch! Good, wholesome food served quickly — no delays — *fortuna extra* time for those noon errands," she answered. "For instance, today I have just one errand to be done. You do it for me this noon — see the crowds — and then you can tell those shoppers the Waldorf Way to double their noon-hour shopping time."

Good idea, O.K. — but some- how when I was matching those three samples of Some- body's yarn, I felt as though I'd been tricked into doing it. You see, I eat lunch at the Waldorf almost every day *enough*."

But my reason for eating there is not so much because save time as it is because I happen to know how Wal- dorf food is prepared. I know it's good — made of good, fresh materials, — tastefully sea- soned.

I know that Waldorf never use any kind of food sub- stitutes; that Waldorf hash is fresh-broiled corned beef and fresh-broiled meaty pota- toes wrapped ready for the pans in individual waxed- paper packages; and that Wal- dorf poached eggs are from eggs.

And I know that Waldorf executives know how to run their business and do it as best they know how. H. L. A.

Le Maréchal Foch and The Generals—Plus—

Airplanes—tanks—ships—were each at one time or another "going to win the war." But what really won the war was the united organization of *experienced* commanders plus the efficiency of the combined forces they trained and directed.

And that's exactly what makes every Waldorf Lunch successful in the undeviating Waldorf purpose to maintain worthy dining places for the quick, courteous and economical service of appetizing food.

The Waldorf System Incorporated today is a great Allied Army in the service of the public—the alliance of four other successful chains of modern lunch rooms with the Waldorf.

All of the "generals" in this Waldorf organization—the president and each of the men who are vice presi- dents—and operating-managers—have had years of practical experience.

Today the Waldorf System Incorporated is acknowl- edged by men who know to be better organized and administered than any other chain-restaurant corpora- tion in the country. That means not only exceptional quality but exceptional economy for you—at lunch time, for instance.

Waldorf System Incorporated

Executive Offices—169 High Street, Boston

The Eighty-Eight Lunch Rooms Operated by the Waldorf System, Inc., are located in the following cities:

ALBANY BUFFALO CAMBRIDGE CHELSEA ERIE EVERETT FITCHBURG HAVERHILL	HARTFORD LAWRENCE LYNN LOWELL MANCHESTER (N. H.) NEWARK	NEW HAVEN NEW BEDFORD PANTUCKET PROVIDENCE ROCHESTER (N. Y.)	SALEM SCHENECTADY SPRINGFIELD SYRACUSE TROY WALTHAM WATERBURY WORCESTER
--	--	--	--

29 IN BOSTON

FIG. 35.

again the motive is to turn transient into permanent customers, and to shift the emphasis from price to service.

Price Advertising.—So much has already been said about institutional advertising and its importance to the chain that it may be thought price advertising is to be subordinated. Quite to the contrary, a chain can never afford to neglect price adver-

tising. It must always mention the price; more often than not it must feature the price. But price is only one element in the advertising, although it is the fundamental one. Frequently the inclusion of "reason-why" copy will add greatly to the effectiveness of the advertising.

PIGGLY WIGGLY GIVES REASONS FOR PATRONAGE

Piggly Wiggly is a system of merchandising that provides every housekeeper with a well-ordered pantry that she can go to any time between 7 a.m. and 6 p.m., Saturdays until 10 p.m., and there select with her own hands those articles of food that she may of her own mind want to select. More than one thousand different items are to be found in every Piggly Wiggly store.

Money. You save from 10 to 20 per cent on every article purchased at Piggly Wiggly. A regular patron will save from \$8 to \$30 a month without sacrificing either quantity or quality.

Time. You save time, energy, and patience, as you wait on yourself and don't have to ask the price of any article, as a swinging price tag indicates the price. You don't have to ask about any article, as only nationally known products are to be found on Piggly Wiggly shelves. You don't have to listen to Mrs. Hard-to-Please or Mrs. Haggler, as they have no one to argue with.

Health. The most precious thing in the world. You can see with your own eyes that the goods are clean, that the surroundings are clean. Some of the goods are in air-tight cartons, others are weighed and sealed in packages of different weights by automatic machines without a human hand touching them.

Fig. 36.—How the Piggly Wiggly Company advertises the advantages which it has to offer its customers.

Figure 37 illustrates the type of advertising which features price alone. Figure 38 shows a type of advertising which attempts to mingle the institutional form of advertising with the straight merchandise advertising, and, in addition, to give a certain amount of sales copy to each item advertised. Each advertisement is preceded by editorial copy, a policy which has had the same beneficial effect as did the daily editorials which were used in Wanamaker advertising. At the top of every advertisement is the slogan "It's risky to pay less—and useless to pay more."

It has been recognized by some grocery chains that the weakness of cut-price advertising is that it tends to increase business in

WEEK END MARKET SPECIALS

PORK

PORK LOIN ROAST
4 to 6-lb. Cuts
Cut from Young Corn Fed Pigs
 $\frac{1}{2}$ or whole strip
CHOPS CENTRE CUTS ONLY **lb. 27c**

19^C lb.

BEEF QUALITY CORN FED ROASTS BONELESS CHUCK
Boneless Sirloin.....lb. 38c
Rib Roasts.....lb. 30c
Face Rump.....lb. 27c
Chuck Roast.....lb. 18c **20^C lb.**

SWEET FLORIDA ORANGES. Good Size, Doz. 32c

STEAKS Quality Corn Fed Beef, All Round, Sirloin or Face Rump
Porterhouse, Rump or Top Round.....lb. **27^C lb.**

LARGE RIPE YELLOW BANANAS. Doz. 35c

BUTTER	FISH	NEW EGGS
MEADOWBROOK CREAMERY Cut From Tub OUR BEST 45c lb.	Steak Cod.....lb. 15c Shore Haddock..lb. 10c Cape Scallops..pt. 35c Halibut to fry or boil, lb.25c Cod Blfs.....2 lbs. 25c	The Famous Meadowbrook Brand 60c A Doz. SAVE 15c DOZ.

FRESH LEAN CHOPPED STEAK. 2 lbs. 25c

BEEF MOHICAN MILD CURED.
Boneless Sticklers
Thick Ribs 20c lb. Lean Flanks 7c **12^{1C} lb.**

HEINZ BAKED BEANS 10c Can. Reg. Pr. 15c

FOWL FRESH KILLED MILK FED
 $2\frac{1}{2}$ to 3-lb. Av. **31^C lb.**

POUND CAKE	COFFEE	OLEO
Dark Fruit Plain Marble Raisin 25^C lb.	Mohican Dinner Blend In Bean or ground to suit, 25^C lb.	Swift's Premium Gem Nut 2 lbs. 49c 27^C lb.

ROXBURY
2152 Washington

WALTHAM
211 Moody St

THE MOHICAN MARKETS

BOSTON
96 Washington

SO. BOSTON
423 West Broadway

Fig. 37.—Common form of local newspaper price advertising.

show how this is accomplished by Mr. Bower's Stores. According to J. M. Fly, president of the Chain, instead of saying:

"Minaret Peanut Butter—3½-ounce jar—9 cents."

We say:

"Minaret Peanut Butter. A blend of selected Virginia and imported Spanish peanuts, makes unusually fine sandwiches; 3½-ounce jar—9 cents."

Crisco we advertise as follows:

"Keep kitchen odors out of the living room—fry with Crisco. 1-pound can—24 cents."

Baked beans we recently advertised in this way:

"Baked to a turn, then packed in tomato sauce. Polks Best oven-baked beans. Thoroughly, slowly, carefully and properly baked to retain all the delicious qualities. Then packed dry with a special tomato sauce poured over them with added heat applied after can is sealed—per can—10 cents."

The Media of Advertising.—In addition to such point of purchase advertising as window and store display, there are at least eight forms of advertising which are utilized by chain stores:

1. Periodicals.
2. Newspapers.
3. Car cards and outdoor advertising (signs).
4. Direct-mail publicity of various kinds.
5. Dodgers, broadsides, shopping news.
6. Counter leaflets and package inserts.
7. Specialty advertising.
8. Radio.

The average chain system uses a variety of advertising media. The policy of many chains is well typified by the following remarks of a chain executive:

The question of advertising is very important. Chain stores render less service to their customers than old-time stores do—how are they going to overcome that fact? We do it by making our prices lower and then by telling everybody about it. We operate many stores, some one of which is sure to be not more than a few blocks from your house, no matter where you may live. But because a chain store gets part of everybody's business probably at least once a year, and because a customer of No. 5 feels perfectly free to stop in at No. 45 if she is out

that way and has time to buy, we have no actual personal acquaintance with our customers, such as a small retailer has. We have to shoot our advertising in the air and make it cover the whole town.

We use the local newspapers. Some chains use handbills or dodgers. Recently some chains have been issuing a weekly paper containing advertisements of the week's "specials" and containing jokes, cartoons, and reading matter, so that the children will take the paper home. This is a new development in the business and merits consideration.

**YOU CAN ALWAYS
SAVE MONEY BY WEARING
W. L. DOUGLAS SHOES
SOLD DIRECT FROM FACTORY
TO YOU AT ONE PROFIT**



**STAMPING THE RETAIL PRICE
AT THE FACTORY**

**THE STAMPED PRICE
IS YOUR PROTECTION
AGAINST
UNREASONABLE PROFITS**



W. L. DOUGLAS

\$7.00 & \$8.00 SHOES FOR MEN AND WOMEN

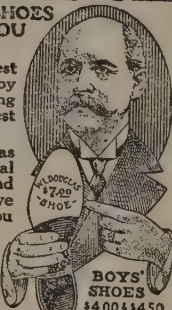
ALSO MANY STYLES AT \$5.00 & \$6.00

**WHEN YOU BUY W. L. DOUGLAS SHOES
CONSIDER THE EXTRA QUALITY YOU
RECEIVE FOR THE PRICE PAID**

W. L. Douglas shoes are made of the best and finest selected leathers the market affords. We employ the highest paid, skilled shoemakers, all working with an honest determination to make the best shoes for the price that money can buy.

When you need shoes look for a W. L. Douglas store. We own 108 stores located in the principal cities. You will find in our stores many kinds and styles of high-class, fine shoes that we believe are better shoe values for the money than you can buy elsewhere. Our \$7.00 and \$8.00 shoes are exceptionally good values. There is one point we wish to impress upon you that is worth dollars for you to remember. W. L. Douglas shoes are put into all of our stores at factory cost. We do not make one cent of profit until the shoes are sold to you. When you buy shoes at any one of our stores you pay only one small retail profit.

No matter where you live, shoe dealers can supply you with W. L. Douglas shoes. They cost no more in San Francisco than they do in New York. Insist upon having W. L. Douglas shoes with the name and retail price stamped on the sole. Do not take a substitute and pay one or two extra profits. Order direct from the factory and save money.



**BOYS'
SHOES
\$4.00 & \$4.50**

W. L. Douglas name and portrait is the best known shoe Trade Mark in the world. It stands for the highest standard of quality at the lowest possible cost.

Catalog Free.

W. L. Douglas
President
W. L. Douglas Shoe Co.,
210 Spark St., Brockton, Mass.

FIG. 39.—Type of national advertising done by W. L. Douglas Shoe Company.

The more modern policy in regard to advertising is based on the belief that a chain can build up a regular clientele as well as an independent store, and, to do this, it will use whatever forms of advertising appear beneficial.

Periodical Advertising.—Some of the larger manufacturers' chains have advertised in national periodicals for years. Figure 39 illustrates the well-known advertisement of the W. L. Douglas

Shoe Company. In many such cases, however, this advertising serves a dual purpose, since the manufacturer who sells through agencies as well as through his own stores is creating a demand



THE LITTLE RED SCHOOL HOUSE of AMERICAN RETAILING

American mothers send their children to the A & P stores day after day, in much the same faith that they send them to school.

No higher tribute can be paid to any merchandising institution than this, accorded every day to Atlantic & Pacific stores.

In the brief span of a business day, the A & P stores throughout the length and breadth of America are visited by a constant stream of customers.

Behind this daily steadfast-

ness there is something finer and greater than the customer's personal gain.

It is a thing which springs from the same source that impels the American people to regard the little red school house with lasting and unshakeable affection.

It is the characteristic American appreciation of, and whole-hearted adherence to, those things and those institutions which are honest and genuine and good.

THE GREAT ATLANTIC & PACIFIC TEA COMPANY

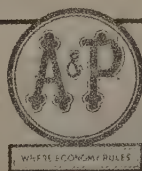


FIG. 40.—The first advertisement in the campaign which the A. & P. is running.

for his product wherever it is sold. It is only recently that chains whose interests are strictly in the retailing of products have advertised in national periodicals.

F. W. WOOLWORTH CO.
F. W. WOOLWORTH CO.

WOOLCO
Snap
5¢
 *The Card*
of 12

NONE BETTER AT ANY PRICE

STYLE-PROTECTION and Woolco Snaps are synonymous. Each Woolco is a flat-lying, invisible fastener that faithfully guards neatly closed seams. Its five cent economy price is made possible by the tremendous buying resources of the great Woolworth organization and its vast network of retail selling units spanning the continent.

*Seven sizes—for all weight fabrics
In black and bright nickel*

Sold Exclusively at
F. W. WOOLWORTH CO.
Stores

FIG. 41.—Column advertisement in a woman's magazine of a Woolworth product.

The best-known campaign is that of the Great Atlantic & Pacific Tea Company (see Fig. 40). Another piece of copy, headed "Confidence" stresses the place which the Atlantic & Pacific store occupies in the community. It reads:

The most significant fact in American retail merchandising is the confidence which women in every community feel toward the A. & P. stores.

This confidence has reached a depth and strength which permeates the whole nation and is the solid foundation of this great business.

Every day, in cities and suburbs and towns, America's wives and mothers go to the A. & P. stores—or send their children—utterly convinced that they do better—in quality, in price and in value.

This great confidence makes these women the loyal friends of their neighborhood A. & P. store, typical as it is of the great group of A. & P. stores which serve the country.

The Great Atlantic & Pacific Tea Co. cherishes this confidence as its most valued and valuable asset.

Hence, it is committed to a single policy which assures its customers every possible advantage of quality and economy, so that A. & P. may continue to deserve the confidence which has made it great.

The J. C. Penney Company, the S. S. Kresge Company, and several others have also bought magazine space at different times. Figure 41 illustrates the type of copy which the F. W. Woolworth Company at one time ran in women's magazines. Here the emphasis is on one small product. It is safe to say that the main benefit to be derived from such advertising is institutional, and there is no particular value to be gained from advertising a particular item of merchandise.

Newspaper Advertising.—The primary function of newspaper advertising is to sell specific merchandise. The advertising policy of the chain may, and preferably should, include institutional copy in its newspaper advertising, but this is ordinarily in addition to the straight selling information.

Opinion as to the method in which newspaper advertising should be conducted by chains is not unanimous. Everyone recognizes, however, that newspapers offer relatively dense circulation over limited areas, and that the chains which cover this territory can use these newspapers effectively. The original newspaper chain advertising was little more than a price list.

This idea is still predominant, although it has been elaborated. It is still true that certain chains sell on a price basis alone, and that their appeal through advertising must be largely price.

88¢ COUPON DAY! 88¢

EIGHTY-EIGHT CENTS

WEDNESDAY, MAY 25TH

ROSENTHAL'S SALES STORES

2415 MISSION ST. NEAR 20TH

AN EIGHTY EIGHT CENT DAY WITH VALUES SO GREAT THAT ITEMS WILL BE SOLD ONLY WHEN COUPONS ARE PRESENTED. APPROXIMATELY 50% OFF. WE RESERVE THE RIGHT TO LIMIT QUANTITIES!

COUPON Crinkle Bed Spreads ON SALE AT 88¢ BRUCE T. COHEN	COUPON PLAID BLANKETS ON SALE AT 88¢ BRUCE T. COHEN	COUPON Bleached Sheets ON SALE AT 88¢ BRUCE T. COHEN
COUPON Crinkle Bed Spreads ON SALE AT 88¢ BRUCE T. COHEN	COUPON YELLOW PILLOWS ON SALE AT 88¢ BRUCE T. COHEN	COUPON BED COMFORTERS ON SALE AT 88¢ BRUCE T. COHEN

CLIP THE COUPONS AND SAVE!

COUPON Feather Pillows ON SALE AT 88¢ BRUCE T. COHEN	COUPON Bathroom Mirrors ON SALE AT 88¢ BRUCE T. COHEN	COUPON SERVING TRAYS ON SALE AT 88¢ BRUCE T. COHEN
COUPON TABLE CLOTHS ON SALE AT 88¢ BRUCE T. COHEN	COUPON SMOKING STANDS ON SALE AT 88¢ BRUCE T. COHEN	COUPON SUIT CASES ON SALE AT 88¢ BRUCE T. COHEN

THIS IS YOUR OPPORTUNITY

COUPON BOYS' OVERALLS 2 FOR 88¢ BRUCE T. COHEN	COUPON Child's Play Suits 2 FOR 88¢ BRUCE T. COHEN	COUPON TABLE COVERS 2 FOR 88¢ BRUCE T. COHEN
COUPON Honeysuckle Towels 6 FOR 88¢ BRUCE T. COHEN	COUPON PILLOW CASES 6 FOR 88¢ BRUCE T. COHEN	COUPON Cups and Saucers Set of 12 for 88¢ BRUCE T. COHEN

COUPON 36 INCH OUTFIT FLANNEL 8 YDS. 88¢ BRUCE T. COHEN	COUPON 32 INCH DRESS CINCINNAM 8 YDS. 88¢ BRUCE T. COHEN	COUPON 36 INCH COMFORTER CHALLIES 8 YDS. 88¢ BRUCE T. COHEN
COUPON 36 INCH PERCALE DRESS PRINTS 8 YDS. 88¢ BRUCE T. COHEN	COUPON 36 IN. FIRM BLEACHED MUSLIN 8 YDS. 88¢ BRUCE T. COHEN	COUPON 34 INCH NEW PRINTED PLUMITY 8 YDS. 88¢ BRUCE T. COHEN
COUPON NEW DRAPERY CRETONNE 8 YDS. 88¢ BRUCE T. COHEN	COUPON SCRIM AND MARQUETTE 8 YDS. 88¢ BRUCE T. COHEN	COUPON 36 INCH PALM CHECKS 8 YDS. 88¢ BRUCE T. COHEN
COUPON 38 INCH MERCERIZED VOILES 5 YDS. 88¢ BRUCE T. COHEN	COUPON 36 INCH STRIPPED SATINETTE 5 YDS. 88¢ BRUCE T. COHEN	COUPON BERKELEY CAMBRIC NAUPOOK 5 YDS. 88¢ BRUCE T. COHEN

COUPON LADIES JULIETTES ON SALE AT 88¢ BRUCE T. COHEN	COUPON Basketball Shoes ON SALE AT 88¢ BRUCE T. COHEN	COUPON PLAY OXFORDS ON SALE AT 88¢ BRUCE T. COHEN
COUPON Children's Scafters ON SALE AT 88¢ BRUCE T. COHEN	COUPON MEN'S SLIPPERS ON SALE AT 88¢ BRUCE T. COHEN	COUPON LADIES' SHOES ON SALE AT 88¢ BRUCE T. COHEN
COUPON Children's Dresses ON SALE AT 88¢ BRUCE T. COHEN	COUPON LADIES' SILK HOSE ON SALE AT 88¢ BRUCE T. COHEN	COUPON CHILDREN'S HATS ON SALE AT 88¢ BRUCE T. COHEN
COUPON LADIES' APRONS ON SALE AT 88¢ BRUCE T. COHEN	COUPON RAYON VESTS 2 FOR 88¢ BRUCE T. COHEN	COUPON FELT SLIPPERS 2 PRS. 88¢ BRUCE T. COHEN

EVERY ITEM A WONDERFUL VALUE

COUPON MEN'S PAJAMAS 88c BRUCE T. COHEN	COUPON MEN'S SOCKS 88c dz. BRUCE T. COHEN	COUPON RAYON SOCKS 5 for 88c BRUCE T. COHEN
COUPON ARROW SHIRTS 88c BRUCE T. COHEN	COUPON SPORT SUITS 2 for 88c BRUCE T. COHEN	COUPON BRAKE PANTS 88c BRUCE T. COHEN
COUPON Pattern Quilts 88c BRUCE T. COHEN	COUPON BATHING SLITS 88c BRUCE T. COHEN	COUPON PAID CURTAINS 88c BRUCE T. COHEN
COUPON TABLE FOLDING 88c yd. BRUCE T. COHEN		

CLIP THE COUPONS AND SAVE MONEY! OUR EVERY EFFORT HAS BEEN EXPENDED TO MAKE THIS SALE A RECORD BREAKER

88¢ DAY!

2415 MISSION ST.

COUPON Comforter Cases 71c BRUCE T. COHEN	COUPON Fur Coat Cases 21c BRUCE T. COHEN	COUPON Peace Heart 14c BRUCE T. COHEN	COUPON RULER'S BED 71c BRUCE T. COHEN	COUPON ROYAL BAKING 99c BRUCE T. COHEN	COUPON Phone 911c and 81c BRUCE T. COHEN	COUPON 8 in. Cigar 15c BRUCE T. COHEN	COUPON Small Tobacco 11c BRUCE T. COHEN
COUPON New York Children 11c BRUCE T. COHEN	COUPON Cigarettes 39c BRUCE T. COHEN	COUPON ARTIST'S 23c BRUCE T. COHEN	COUPON CRAYEL 5c BRUCE T. COHEN	COUPON CRAYEL 41c BRUCE T. COHEN	COUPON Liberty Cigarettes \$1.25 BRUCE T. COHEN	COUPON Famous Cigarettes \$2.75 BRUCE T. COHEN	COUPON WHITE ONLY 10-51c BRUCE T. COHEN

88¢ DAY!

2415 MISSION ST.

FIG. 42.

For example, Fig. 42 illustrates the type of advertising carried on by Rosenthal's Sales Stores, operating 20 units on the Pacific Coast, and selling such miscellaneous items as cigars and tobacco,

WORLD'S
LARGEST
CHAIN
DEPARTMENT
STORE
ORGANIZATION

J.C. Penney Co.
A NATION-WIDE
INSTITUTION-
DEPARTMENT STORES INC.

RELIABLE
QUALITY
GOODS
ALWAYS
AT LOWER
PRICES

109 W. Sycamore St.

South Side Square

Kokomo, Ind.

Difficult to Match

Our large buying power makes the matching of these savings difficult. Try it and see for yourself.

Women's Coats

Spring Styles

New modes for spring in novelty mixed tweeds, full satinette linings attractively styled, sizes 16 to 44

\$7.90

Women's Dresses

Exceptional Values

Spring colors and styles in dresses of satin de Leen. Here are smart durable frocks attractively priced.

\$4.98

**"where
savings
are
greatest"**

This Is Our Home From Choice

Although this Store is a member of a great Nation-wide institution of Stores, it, in all respects, is also as much a local store as any other.

We are here 365 days in the year; we participate in the welfare of the community; we belong to clubs; we contribute to worthy causes; we live here, own a financial interest in this Store and spend our money here.

More than this, because of our membership in a Nation-wide institution we enjoy a buying power that enables us to give the people here a large saving of the money they are accustomed to spend for home and personal needs.

J.C. Penney Co.

FIG. 43.—Because the J. C. Penney Company conducts no sales and avoids comparative price appeal, institutional copy is used extensively. The above advertisement is typical of the manner in which such copy is combined with merchandise offerings. The advertisement shown was 3 columns wide by 8 inches deep.

provisions, dry goods, clothing, and house wares. After careful observation, it was found that it paid best to advertise Tuesday and Friday nights in the local papers, taking full pages. The manager of the chain firmly believes the more items that can be crowded into the page, consistent with good appearance, the more sales will be made. No comparative prices are used, the advertised price being allowed to convey its own bargain message; but in each advertisement some central idea is featured which the customer will remember. Thus in the illustration the coupon idea is stressed, while in other advertisements dollar sales or ten-cent sales may be used.

As opposed to the Rosenthal policy, the advertisement of the J. C. Penney Company in Fig. 43, should be examined. Here the intent is to combine institutional and merchandise advertising. In this particular advertisement, an attempt is made to convince the community that the chain store unit is a local store as much as any other store independently operated, partakes as much in the community life as its independent competitors, and spends its money in the community.

In fixing the percentage of the advertising appropriation used for newspapers, it is well to base it on gross sales, remembering that there are many exceptions to this rule. For example, whenever a new territory is entered, or a new store unit opened, it is advisable to increase the advertising in that locality beyond the normal until the new store or stores are well established, and afterwards gradually to reduce the advertising to the normal again.

Outdoor Advertising.—Under the heading of outdoor advertising come signs, posters, billboards, and car cards. All these forms are normally institutional, featuring the name, the service, or the brand of products sold rather than special offers or price bargains.

The chain store normally features the sign over the unit store, holding rightly that this is not only a mark of identification but also a method of linking up all the units in the mind of the customer.

Posters and billboards have been used but little, although there seems to be no inherent reason why they should not prove as profitable for the chain as for the department store.

Figure 44 illustrates how the Foltz Grocery & Baking Company advertises in the street cars of Cincinnati. Here the advertising is purely institutional, the newspapers being used to advertise prices. Since color is an important element in all outdoor forms of advertising, and since brevity is equally important, this

The figure displays ten distinct advertisements for the Foltz Grocery & Baking Company, arranged in a 3x3 grid with the bottom-right cell empty. Each advertisement is designed for use in street cars and features a mix of text, graphics, and promotional offers.

- Top Left:** A card titled "Mrs. Housewife:" with the text "Here's a plan that puts better food on your table, -and more money in your bank account!" and a large question mark graphic. Below it, a banner reads "It's worth Investigating".
- Top Right:** A card with a large question mark graphic and the text "Mrs. Housewife: Coming events cast their shadows before!".
- Middle Left:** A card titled "The FOLTZ PLAN" with the text "If you can buy as good quality for less - return your purchase and we will cheerfully refund your money. You Must be Satisfied." and "The FOLTZ GROCERY Baking Company".
- Middle Right:** A card titled "The Golden Key to BETTER FOODS" with the text "FOLTZ You Must be Satisfied" and "at Lower PRICES".
- Bottom Left (Top Row):** A card titled "The FOLTZ PLAN" with the text "Any article purchased in any FOLTZ store must prove you if it does not satisfy you, return the money container and we will cheerfully refund your full purchase price. You must be satisfied." and "Mark that Distinction".
- Bottom Left (Middle Row):** A card titled "FOLTZ" with the text "It is not our aim merely to undersell competition -but to sell Better Quality Foods than can be purchased elsewhere!" and "Mark that Distinction".
- Bottom Left (Bottom Row):** A card titled "FOLTZ" with the text "It is not our aim merely to undersell competition -but to sell Better Quality Foods than can be purchased elsewhere!" and "Mark that Distinction".
- Bottom Right (Top Row):** A card titled "FOLTZ" with the text "DOUBLE LOAF made with Milk" and "Over 200 Neighborhood Grocery Stores and Meat Markets".
- Bottom Right (Middle Row):** A card titled "FOLTZ" with the text "DOUBLE LOAF made with Milk" and "Over 200 Neighborhood Grocery Stores and Meat Markets".
- Bottom Right (Bottom Row):** A card titled "THE FINEST PACKED" with the text "FOLTZ COUNTRY GENTLEMAN CORN" and "Special 2 CANS 31¢".

FIG. 44.—(Chain Store Age, March, 1927.)

particular chain used mostly green, yellow, red, and black, and made its messages direct and to the point. Street-car cards are changed once a month, using new layout and copy idea each time. In order to make a tie-up between the store and the car card, the cards in current use are displayed on the walls or counters of the store units.

Direct Mail.—It should be apparent by this time that normally a form of advertising which the independent retailer can employ effectively can be used with greater effect by the chain. This does not always apply, but the exceptions are few. In the case of direct-mail advertising, either for the purpose of having the customer come to the store to purchase, or of having the order sent in by mail, the advantage is not so apparent. A chain selling convenience goods would probably not find this method profitable. On the other hand, a chain of specialty shops might well employ this method successfully. Direct-mail advertising is, however, a specialized form of publicity, the effect of which is largely dependent upon the technique employed, and should only be entrusted to an expert.¹

If special sales are being held, the best method for a convenience chain, selling in restricted areas, is to use handbills, which may be either distributed by boys, wrapped up with merchandise, or left on the counter for customers to pick up. Figure 45 shows the ordinary form of handbill.

Special Advertising Ideas.—Various special forms of advertising may be employed by the chain system. For example, the Piggly Wiggly Colorado Company, of Denver, started a system of cardboard filing boxes for recipes which has since been extended to other Piggly Wigglys. The cardboard filing boxes are sold for 15 cents a box, and each week a recipe card is distributed. On the back of this card is an institutional advertising message, and on the front from two to four recipes. One week the recipes may be for puddings; another, for beef; and another, for potatoes (see Fig. 46). Even if the card is not used, it is estimated that it will have as much advertising value as any package insert, as these recipe cards are wrapped up and handed out with each package. The cost was about \$1.25 per store each week, the cost of the file box being covered by the customer.

The Great Atlantic & Pacific Tea Company publishes weekly a three-page counter leaflet which it calls the *A & P News*. The outside page is devoted to the weekly special values; the inner page contains on both sides recipes for punching and binding

¹ For a good discussion of direct by mail advertising see "Effective Direct Advertising," by Robert L. Ramsay. D. Appleton and Company.

10-24-21



OUR BIG FALL CANNED GOODS SALE 35% OFF!

BIG stocks—BEST goods—LOWEST prices. First-choice of the new 1921 pack—at 35% off 1920 costs.

These prices make Early Buying PAY!

Corn Maine Style Dozen \$1.16	can 10c	Tomatoes Standard Dozen \$1.73	No. 3 Can 15c
Corn "Golden Rose" Extra Fancy Maine Pack Dozen \$1.89	can 16c	Tomatoes "Golden Rose" Doz. \$2.69	No. 3 Can 23c
Corn Golden Bantam Dozen \$2.35	can 20c	String Beans Cal. Wax or Green Doz. \$1.95	can 17c
Peas Fancy Sweet Wisconsin Dozen \$1.63	can 14c	String Beans "Golden Rose" Whole Ref. Dozen \$2.95	25c
Peas "Golden Rose" Sweet Sifted Dozen \$2.69	can 23c	Salmon Pink Alaska tall can \$1.19	10c
Tomatoes Standard No. 2 Dozen \$1.16	can 10c	Salmon Red Alaska tall can \$2.95	25c
Tomatoes "Golden Rose" Doz. \$1.73	No. 2 Can 15c	Salmon "Golden Rose" 1 lb. Can 40c 6 for \$2.35	1-2 lb. can \$1.47 25c
Cond. Milk "Standard" Can 16c		Evap. Milk "Van Camp's" or "Borden's" 6 for 67c	can 11c
Peaches Sliced Heavy Syrup 6 for \$1.29	can 22c	Spinach Extra Fancy Pack Dozen \$2.35	No. 3 can 20c
Pineapple Finest Hawaiian Sliced Dozen \$2.85	No. 2 can 24c	Asparagus Tips 6 for \$2.03	No. 1 Flat Can 35c
Pineapple Finest Hawaiian Grated Dozen \$2.43	No. 2 can 21c	Pork & Beans "Golden Rose" No. 3 Dozen \$2.25	can 19c
Pears Fancy New York 6 for \$2.23	can 38c	Pork & Beans "Golden Rose" No. 2 Dozen \$1.29	can 11c
Sardines Norwegian Smoked Dozen \$1.47	can 12c	Crab Meat 1/2 lb. can 38c 1 lb. can 75c	
Raspberries or Strawberries 6 for \$1.75	30c	Sauerkraut 6 for 88c	can 15c

CHEESE lb. 29c

White or Young America Type

EGGS "Pine Grove" 45c DZ

"Wm. Elliott" Extra Fancy Fresh, Doz. 69c

NOTE: Owing to the frequent market changes, we cannot guarantee the price of Eggs. All other prices guaranteed for the entire week.

TEAS "Golden Rose" Finest Selection, Delicious Flavor, Air-Tight Packages. OOLONG, MIXED OR ENGLISH BREAKFAST (ORANGE PEKOE CEYLON. Lb. 49c) 45c

Coffee "GOLDEN ROSE" lb. 29c | Coffee "JOHN ALDEN" lb. 39c

A Choice Old Coffee At Popular Price

Perfect Blend Old Crop Coffee

MACAROON SNAPS A Delightful Biscuit made with Fresh Eggs and flavored with Luscious Coconut Sale Price for This Week lb. 19c

PRUNES New Crop, Fancy Santa Claras, 6070 Size lb. 14c 5 lbs. 67c

Milk Bread, "Golden Rose" in Wax Paper Large Loaf 12c 1 lb. 5 oz.

The GINTER Co.

Stores Everywhere--Boston and Suburbs

Watch Ginter Co.'s Newspaper Advertisement in Boston Papers for our Special Weekly Sales

FIG. 45.—Counter leaflet featuring price.

Public Preference Produced Piggly Wiggly

WE are living in days of change. Conditions of modern life are steadily altering.

New ideas, new tastes, new habits are rendering obsolete many of the customs that prevailed but a few years ago.

The grocery store of grandpa's day doubtless served its purpose well, but the present generation demands more speed, more sanitation, more efficiency.

It was inevitable that a new type of grocery should come into being.

The amazing popularity of Piggly Wiggly (2300 stores in less than 10 years) indicates that this improved system fully meets present day requirements.

A new recipe card each week. Save them in the Piggly Wiggly Recipe File Box. Copyright 1927 R.H.B.

Alas, All Is Not Gold That Glitters!

AIR, water and sunshine are free, thank goodness, and so are many other delightful and necessary things that we all enjoy without price from the loving hand of a gracious Creator.

But, dear Madam Housewife, be not deceived. Phoning for food to be charged and delivered is not among those beneficent free gifts of Providence.

You pay for such service—and pay well. If these costs were plainly seen in a lump sum, most people would feel them to be a luxury they could hardly afford.

Piggly Wiggly methods save you these costs—a saving of at least 10%, often more. Because of this saving, you are able to live better on a less expenditure. Buying at Piggly Wiggly is the easiest known way of lightening the burden on the family income.

A new recipe card each week. Save them in the Piggly Wiggly Recipe File Box. Copyright 1927 R.H.B.

Hollandaise Sauce

1 cup butter
2 egg yolks
¼ teaspoon salt
2 teaspoons cornstarch
Sprinkle of cayenne
½ cup scalded milk
Juice 1 lemon
Cream the butter, add the cornstarch dissolved in 1 tablespoon cold water, beat well, add the egg yolks one at a time, beating thoroughly again, add seasonings and water and cook in double boiler, constantly until thick. Add lemon juice last.

Tomato Sauce

2 tablespoons butter
2 tablespoons flour
¼ teaspoon onion juice
½ cup water
1 cup strained tomato
Salt, pepper
Melt the butter and stir in the flour. Add the water, stir well, add the tomatoes, the onion juice, salt and pepper. Boil for few minutes.

Card No. 15 File under "SAUCES."

Curry Sauce for Lamb

2 tablespoons butter
2 tablespoons flour
1 teaspoon curry powder
½ teaspoon salt
2 cups lamb stock
½ onion, sliced
½ cup seedless raisins

Pan-fry onion in melted butter until a golden brown. Remove onion from the pan and add the flour, curry powder, and salt. Stir until smooth, then add the lamb stock and keep stirring until sauce has thickened. Add raisins and serve over cooked lamb in a rice border.

10-Minute Cranberry Sauce

1 lb. (4 cups) cranberries
2 cups boiling water
1½ to 2 cups sugar

Boil sugar and water together for five minutes; skim; add the cranberries and boil without stirring (five minutes is usually sufficient) until all the skins are broken. Remove from the fire when the popping stops.

FIG. 46.

together; the back page contains institutional advertising (see Fig. 47).



The

News

Week of Sept. 19, 1927

Published Weekly in the Interest of the Customers of
THE GREAT ATLANTIC & PACIFIC TEA CO.
Prices subject to changes in market conditions

IN THIS ISSUE

ANN PAGE DISCUSSES

School Lunches

<i>For shortening and frying!</i>	
Crisco	lb tin 23^c
<i>Double tipped!</i>	
Matches	6 boxes 23^c
<i>Very fine, mostly claw meat!</i>	
Crab Meat	3 cans 89^c can 30^c
<i>Large and medium prunes in a sanitary package!</i>	
Sunsweet Prunes	2 lb pkg 19^c
<i>Perfectly ripened Hawaiian fruit!</i>	
Sliced Pineapple	A & P No. 2 can 21^c
MORE GREAT VALUES ON THE INSIDE PAGES	

FIG. 47.

A word should be said, of course, about radio advertising, although it is too soon to state definitely any conclusions upon the subject. The Great Atlantic & Pacific Company spends

about \$75,000 a year on the A & P Gypsies. While this is the best-known example, there are other stores, such as Mr. Bower's Stores of Memphis, Tenn., which also broadcast over the air.

Chain Advertising and the National Advertised Product.—

There has been an undoubted tendency of late years for the chain system to sell manufacturers' brands and even to advertise them extensively. This may, at first sight, seem at variance with the former chain policy of pushing its own brands. The reasons for the change, however, are not far to seek. In the first place, the chain store sells what the public demands; and sells what offers least sales resistance. If the manufacturer does the merchant's work for him, and creates consumer demand, he merely relieves the chain of the task of salesmanship. The wise chain will not go to the expense of trying to convince customers that they want something else than what they ask for. Substitution has gone out of fashion as a chain method. By stocking nationally advertised goods, the chain salesman is not compelled to spend time selling; he merely hands out what is asked for. Responsibility for the goods rests on the manufacturer; not on the chain.

Certain chains have found it exceedingly profitable to handle nothing but advertised goods. They have found that this policy gives them prestige and standing, while they do not have to cut prices or push the product, the latter function being assumed by the manufacturer. Other chains stock both the advertised brands and their own private brands, selling whatever the customer demands. It is well to note that the problem of national advertising by manufacturers is not as yet settled. It is settling into a competitive state which can hardly fail to raise the price to the consumer. The chain's private brands gain in value in the public's eyes as the price differential grows larger.

It is general chain policy to offer "loss leaders" of nationally advertised goods. It does this for a definite purpose—to attract the customer to the store. Manufacturers who used to go to great lengths to prevent these sales are now coming to see that, since they cannot do away with them, they might as well cooperate and reap the maximum of benefit themselves.

Advertising Openings, Enlargements, and Changes.—There are a number of occasions on which a chain may think it desir-

able to expend special advertising effort. When any retailer starts a new store, for example, he wants as many people to know about it as possible. He may offer special inducements to get people to come to the store. He may distribute handbills from house to house. He may do nothing at all beyond choosing a good location and relying on the name over the door and the price display in the window. Without doubt the latter method is the cheapest, but it will not reach all the people who may be considered as potential customers. It is a logical policy to put an advance notice of the opening in the local paper.

When the Metropolitan Stores, Inc. opened in Philadelphia, on the first business day it made 69,000 sales to 40,000 customers. It is one of a chain of five- to fifty-cent stores, stocking about 10,000 items. To attract customers, the following advertisement was inserted in the local papers:

The merchandise is all new. It has been personally selected by expert buyers. Many of the articles have never before been obtainable at these prices or offered on the counters of chain stores.

The merchandise must be seen to be appreciated. Come to our opening. You will be under no obligation to purchase. We want you to see the remarkable stocks as they stand complete—to see what is possible for a merchandise organization such as ours, buying in large quantities, to offer within a selling range of from 5 to 50 cents.

We guarantee satisfaction to all purchasers.

Advertising is a short cut. In a comparatively brief time it does what otherwise might take, and has taken, years to accomplish. The fact that the Great Atlantic & Pacific Tea Company did not advertise does not mean that another store with a location equally good, a stock equally low-priced, and a manager with equally good personality could do the same thing. A store which retails to the public must have goodwill. A large chain has a fund of goodwill already prepared to draw upon. A chain which enters a locality for the first time must create its goodwill. The success of the Metropolitan Stores advertising was directly mirrored in the number of people who came to the store the first day.

When a chain decides to open a store in a new locality, it can choose among the following advertising media:

1. Location advertising, such as posters, window pasters, signs.
2. Outdoor advertising of various types.
3. Advertising in local papers.
4. Distribution by hand or mail or broadsides, price lists, or institutional publicity.

Some special advertising is also desirable when the store makes enlargements or changes its location. There are also times when local conditions exert special influence on the advertising policy. For example, the ordinary policy of the Woolworth organization has always been to use display and stickers inside and outside the store. But in a store in Des Moines, located in the theater district, these ordinary publicity methods failed to draw trade. Consequently advertisements, quoting prices on certain specials offering during certain hours of the day, were run in daily papers.

Cooperative Advertising by Chains.—Associations of manufacturers and producers have often carried on advertising campaigns designed to increase the sales of all members of the industry. This idea has also been utilized by seven of the larger chains in and around Los Angeles, Cal.—the Sam. Seelig Company, the H. G. Chaffee Company, the Daley stores, Von's Stores, the Bay Cities Mercantile Company, and the Piggly Wiggly stores. A cooperative educational campaign setting forth the aims and policies of chain store systems was run in the newspapers every week end. The original appropriation was \$10,000, paid for according to the number of stores in each chain. Thus, the Sam. Seelig Company paid four-thirteenths of the cost.

One advertisement listed 12 chain store policies which accrued to the benefit of the consumer.

- First. Sell only the best values.
- Second. Money-back guarantees on every article.
- Third. Establish stores convenient to your home.
- Fourth. Build up the neighborhood community.
- Fifth. Fresh new stocks kept clean.
- Sixth. Absolute truth in all advertisements.
- Seventh. Lowest prices possible.
- Eighth. Clean stores.
- Ninth. Courteous service.

Tenth. Cash and carry.

Eleventh. Equal consideration for children.

Twelfth. A square deal and fair treatment for all.

The chain store in your neighborhood strives to be worthy of your patronage every day in the year.

Another advertisement reproduced the distinctive emblems of the seven chains. A third stressed the desirability of fresh food and the service rendered in this respect by the chain. The advertisement was headed:

WE GUARANTEE FRESH FOODS

First. Food products should reach your table quickly if they are to be served in prime condition.

Second. Motor trucks make daily visits to all of our stores.

Third. The chain store grocers sell foods before they can get stale.

Fourth. Buy *fresh foods* where they are received daily—at one of our 406 stores.

Summertime Makes This Even More Important

Other advantages resulting from cooperative effort have been taking action on any special national or local holiday, giving subscriptions to local charities, or avoiding the employment of a dishonest employee.

Coordinating Advertising with Other Chain Activities.—It should be obvious that advertising will not produce its best results unless it is coordinated, just as is the case with window display, with other chain activities. For example, before an advertisement is run, the local managers should be informed of what is to be advertised and where the advertising is run. Some of the more paternalistic chains, leaving nothing to chance, send out careful instructions to make sure that window displays and advertising correspond to each other. The greatest care must be taken at headquarters to make certain that no hitch in the program occurs.

In the case of institutional advertising, it is essential to "sell" the managers the idea, to convince them of the value of advertising an intangible product such as the chain idea. The Great Atlantic & Pacific Tea Company found it profitable to get its managers together and explain its forthcoming institutional campaign to them. When the campaign actually started, large

reproductions of the little red schoolhouse advertisement were sent out to local stores for window display purposes.

Poor as the average advertising of the chain store has been, it has been immeasurably better than the average of its independent competitors. This independent has been at a tremendous disadvantage, for, except in small communities, it did not pay to advertise in the papers. Some stores have attempted to overcome this handicap by a cooperative campaign with a slogan, such as "Patronize Your Neighborhood Store." But whatever effect such a campaign may have, it can never become dangerous to the chain until the neighborhood store is able to compete with the chain on its own ground of price.

The future of chain advertising will be directed towards the chain competitor rather than towards the independent. Chains have begun to feel the necessity of advertising. In the same way that chains are extending their services, they are extending their advertising.

CHAPTER XV

SELECTION OF EMPLOYEES

Successful chain store operation is dependent upon methods and men, and which is the more important is difficult to say. It is generally agreed that one of the chain's major problems, one on which its expansive and cohesive capacity will largely depend, is to obtain the right sort of material in its managers and clerks. As the number of links in a chain increases and as its territorial distribution widens, the personnel problem grows weightier. A point is reached sooner or later where it is necessary to entrust the choosing and the training of the personnel to a separate department. At what point in the development of the chain this department should be called into being is impossible to state definitely. Roughly speaking, it is necessary as soon as the personal touch, maintained by the owner of an independent store or a small chain of stores over each of his employees, is lost. With further growth of the chain, the functions of the personnel department will increase also.

Out of the chaos of practices and methods in regard to employment which originally prevailed in the chain store field, a certain order has evolved. It is recognized that employees do not come of their own accord; they must be sought after if the right types are to be secured. Certain standardized methods of sifting out applicants have been developed, certain requirements have been formulated which will serve to eliminate those unfitted for service in the chain ranks. The application blank, the interview, and the psychological test are all being used.

After selection has been made, methods of training have been prepared which will fit the new employee for his position. His morale is kept up, his record studied, his promotion determined, by the central office in many cases. Long study has been spent on the method of remuneration which will at the same time reward his efforts adequately and make him even more desirous of giving his best ability to the chain which he serves.

Sources of Employees.—The first problem of the chain is to secure enough men for its needs. Particularly, when a chain is expanding rapidly, this problem of an adequate supply of personnel is all important. It is rare to find a chain which picks for employment more than a small fraction of the applicants examined. In the Penney chain the percentage of those taken to those rejected was about 4 per cent; that is, out of 25 applications, only 1 was accepted. Particularly for chains that follow a policy of promoting from their own ranks the initial selection of men is of the greatest importance.

Briefly, chains acquire new employees:

1. By offering inducements to men already established in other chains. While this is not regarded as strictly ethical, if a man comes of his own accord and desires to change his employer, the chain should carefully consider the circumstances of the case. In any event, previous employment by another chain is a factor of importance.
2. By taking in men who have already had retail experience elsewhere. Many chain store managers have been recruited from men who have previously owned their own stores, but prefer the security and guaranty of a regular wage from the chain.
3. By seeking help as yet inexperienced and training it. This is the method usually employed by the larger chains and, as far as possible, by the smaller organizations.

The Penney organization advertises in newspapers, magazines, and trade journals for employees. One of its advertisements which proved very successful in obtaining men of the right caliber during its early years read as follows:

Men wanted. Well-established mercantile concern, operating 313 retail stores, offers:

1. Long and continuous hours of work.
2. The work itself, hard, ceaseless, trying, testing.
3. The work drive unrelenting, day in and day out.
4. And for it, a small living salary, perhaps less than you are getting now.

The Employment Department.—Some of the larger chains have employment departments, which pass upon all applicants.

Obviously, a chain with broad territorial distribution will require several employment centers. In the case of the United Cigar Stores Company, the New York general office hires employees in the Metropolitan district as far as Poughkeepsie. Outside of this territory, district managers hire men, subject always to the approval of the general office, and these district managers are also given the right to discharge employees.

Where there are a number of clerks in a store under the manager, these clerks are usually hired by the manager. One chain which allows the manager to suit the wages according to local conditions finds that a manager will frequently pay too low wages to his helpers for maximum efficiency. When the district superintendent makes his rounds, therefore, he inspects any new employees who may have been hired since his last appearance, and goes over their wages. When new stores are opened, it is usually desirable to have at least a leaven of employees who have had experience in the company's already established stores.

In the case of sales girls in chain, variety or department stores, the general practice is to have them hired by the store managers. These girls ordinarily do little more than assist the customer in making a purchase, and the turnover is usually rather large in this class of untrained employees.

Each chain has a certain procedure in regard to applicants for employment. Ordinarily, some species of application blank must be filled out, supplemented by an interview, and in rare cases by a form of mental test, and, in some cases, by a physical examination as well.

The Application Blank.—In some cases, the filling out of the application precedes the interview, while in others the application is the first step in the employment process. This application is designed to obtain certain facts about the person of the applicant which are judged important. This will always include the personal history of the applicants, name, date of birth, address, married or single, and may demand such information as education, personal habits, previous experience.

Figure 48 shows the simple form used by the Regal Shoe Company, the back of which serves as the employee's record form.

APPLICATION for EMPLOYMENT

FOR STORE'S USE
(PREVIOUS EXPERIENCE NOT NECESSARY)

SHEETS 1-2 INC.

PRELIMINARY } REQUIREMENTS OF APPLICANTS
FOLLOW THESE INSTRUCTIONS CAREFULLY.

In seeking employment, applicant should hand a list to his "prospective employer" and say:
 "This is my record for the past 10 years. I want employment and am willing to work hard for advancement.
 What can you do for me?"

Employees holding "permanent positions of trust" must be bonded. Our Company pays for this bond.

To get a bond you must furnish **ABSOLUTE FACTS** from the present time and straight back **FOR THE PAST 10 YEARS.**

You must list and account for your entire time either "in" or "out" of employment, to include sickness or otherwise even if but a few weeks or days are involved. Do not try to "cover up" any time or places by claiming to have been working for relatives or friends.

Secure this information from your personal records or from the family at home. If necessary, consult previous employers. Get the facts—you should always keep a record of this kind for your personal convenience anyway.

IMMEDIATE—PERSONAL—AND THOROUGH INVESTIGATION—WILL BE MADE BOTH BY THIS COMPANY AND THE BONDING COMPANY, OF YOUR PREVIOUS CAREER AND ALL INFORMATION YOU FURNISH. THEREFORE, UNLESS YOU INCLUDE ALL EMPLOYMENTS AND CAN SHOW THAT YOU LEFT EACH PLACE IN GOOD STANDING AND YOUR BOND IS ACCEPTED ON YOUR PAST RECORD, WE CANNOT CONSIDER YOUR APPLICATION. (All written references will be checked up thoroughly.)

PLEASE UNDERSTAND that your list of this information must be **correct and complete** as here outlined and provided for on the back of this paper.

DATES—TIME EMPLOYED. Position—last salary—name of employer and present address—kind of business—superior officers—name and present address—reason for leaving.

" **TIME NOT EMPLOYED.** If you were "out of work" don't hesitate to say so. You must furnish the full facts—and state frankly where and with whom you were living and reasons why you were unemployed.

" **TIME IN GOVERNMENT SERVICE.** State branch of service—bring your discharge papers with you.

" **VOCATIONAL TRAINING.** State kind of training, where and how long.

" **TIME IN BUSINESS FOR YOURSELF.** Name of your Company—address—kind of business—also names and addresses of persons or concerns from whom you bought goods. If in debt in any way—List names, addresses, amounts and how incurred—on separate paper and **ATTACH.**

" **GIVE NUMBER OF YOUR BADGE.** If formerly employed on Government work—railroads—freight yards or other places where badges are used.

" **TIME IN SCHOOL.** Name or Number of School—address—name of last principal.

" **NAME.** Did you ever change your name—if so, state full particulars.

MAKE CERTAIN TO GET YOUR BOND. If you were ever involved in any transaction that questioned your character or which might cause any one to hesitate in giving you good references—**attach a statement explaining the matter.** If you fail to do this you cannot expect employment with our Company.

WORKING HOURS — HONESTY — LOYALTY — ADVANCEMENT

The hours are irregular, but the work is not hard or exacting for men in good health. In towns where stores are open 7 days a week you may have to work on Sunday, but we adhere strictly to State Labor Laws in all cases. We also operate in different "shifts" by day and week, which are changed from time to time at the option of the company.

For example: You may sometimes begin work in the morning and continue to 6 P. M., or you may start in the morning and work until noon, report back at 6 P. M. or later, and remain on duty until closing time—or you may report at noon or in the afternoon and work through to closing time all depending on the location of the store and demands of the public.

YOU CAN MAKE THIS A LIFE-TIME WORTH-WHILE-BUSINESS CONNECTION, AND ADVANCE YOURSELF GRADUALLY, IN BOTH SALARY AND POSITION. IN FACT, WITH CLEAN LIVING, THERE IS NO LIMIT TO YOUR SUCCESS WITH OUR COMPANY, IF YOU ARE WILLING TO WORK HARD ENOUGH AND ARE INTERESTED IN YOUR OWN PERSONAL FUTURE. PRACTICALLY EVERY MAN HOLDING AN OFFICIAL POSITION WITH US TODAY, STARTED "GREEN" AT THE BOTTOM.

Subject to certain rules, regulations and conditions, our Company has a Pension, Insurance, Vacation and Stock Plan. Also limited **FREE Medical Service** is provided for employees, where practical, in certain large cities.

Of course, **HONESTY** and **LOYALTY** are demanded here as everywhere from the very beginning and all the way if you hope for success with this Company.

NOTE.—We will expect you to furnish a small photo of yourself about 1½ inches square, to be retained by the Company, should you be engaged.

(OVER)

Fig. 49.—First page of employment application used by the United Cigar Stores Company.

SHEET **1**

APPLICANT READ THIS PAPER OVER VERY CAREFULLY AT YOUR HOME, IF AFTER SERIOUS CONSIDERATION YOU ARE WILLING AND CAN COMPLY WITH THESE REQUIREMENTS YOU MAY CALL ANY WEEK DAY MORNING, WEDNESDAY, THURSDAY AND PRESENT A STATEMENT OF YOUR PART RECORD AS BELOW

Date _____ 192__

I _____ residing at _____

(PRINT) First Name or Full Middle Initial Last Name

(In care of _____) herewith apply for position with the

(If you wish to send out above name of person with whom you live)

United Cigar Stores Company of America

The Following Are **Absolute facts for last 10 years** regarding my past life

Born at _____ Nationality _____ (Describe) Religion _____ Age _____ Years

Married or Single _____ Wife living _____ Children _____ Other Dependents _____

Recommended by _____ Related to any one with Company and whom _____

Debit (give full details) _____ State if employed by this Company before _____

Did you ever use any other name _____ Date of Birth _____

NOTE (You must account for each and every employment even if temporary or for only a few days to cover entire period of last 10 years, giving exact months and years, (consult personal records or get this information from previous employers, etc.) stating time—AT SCHOOL, UNEMPLOYED—EMPLOYED—or if in BUSINESS FOR YOURSELF—GIVE NAMES AND ADDRESSES OF SUBSTANTIAL PERSONS OR CONCERNS WITH WHOM YOU DEALT. A thorough investigation will be made by both this office and the Bonding Company of statements you make herein and if, upon investigation, it develops that you did not leave each employer in good standing, or that you were ever involved in anything unprincipled, or of a similar nature, or if for any reason the Bonding Company shall refuse to bond you, your application will not be considered.)

(STATE THE WHOLE FACTS PLAINLY—WRITE STRAIGHT ACROSS THE SHEET IF NECESSARY)

TIME OF SERVICE		EMPLOYED AS	LAST SALARY	NAME OF EMPLOYER OR CORPORATION AND PRESENT ADDRESS	KIND OF BUSINESS	SUPERIOR OFFICERS NAME AND PRESENT ADDRESS	REASON FOR LEAVING
FROM	TO						
Month	Year	Month	Year				
PRESENT TIME AND BACK				(Name)		(Name)	
19		19		(Address)		(Address)	
19		19					
19		19					
19		19					
19		19					
19		19					
19		19					
19		19					
19		19					
19		19					
19		19					
19		19					
19		19					

If not enough space here complete record on a separate sheet and ATTACH.

ISSUED to Applicant by _____ Floor.

Date _____ 192__ Address _____

DISTRICT SALES MANAGER—If Applicant appears acceptable, tear this sheet off from side. When returned completed, after you have made satisfactory investigation, if finally engaged, then attach this Preliminary Sheet No. 1 to Sheet No. 2 and forward with other completed Employment papers to—**GENERAL OFFICE**.

Fig. 50.—Second page of employment application used by the United Cigar Stores Company.

store for the successful applicants, and also a statement of the difficulties which must be overcome. Interviews are arranged for those who are sent these application blanks.

Applicants for selling positions in chain department stores also are required to fill out an application blank, sometimes accompanied by a simple questionnaire containing simple problems in arithmetic and questions to test the applicant's suitability for a selling position. Those who fill out the application blanks correctly are granted an interview.

The Interview.—The decision as to whether an applicant is suitable is ordinarily made on the basis of the interview. It is customary to have certain standards to which applicants must measure up. Following are the points by which the Spurgeon Mercantile Company, Chicago, Ill., operating department stores in small mid-western towns, judges its applicants:

1. General personality.
2. Characteristics:
 - Honesty.
 - Ambition.
 - Energy.
 - Temperament.
3. Domestic influences:
 - Parentage.
 - Family ties.
 - Religious connections.
 - Social affiliations.
4. Mental training:
 - General education.
 - Linguistic knowledge.
5. Physical attributes:
 - Age.
 - Health.
 - Personal appearance.
6. Industrial attributes:
 - Business experience.
 - Last salary earned.
 - Number of positions held.
 - Condition of personal finances.

During the interview given by the United Cigar Stores Company, the applicant's appearance, manner, address, and behavior are judged. He is watched carefully while waiting his turn.

If he talks constantly to his neighbors, he is not considered suitable material for the chain organization. He must, of course, be neat in appearance. If he is obviously handicapped physically, he is eliminated in as kind a manner as possible. It is interesting to note that two friends who come together are rarely taken.

The W. T. Grant Company allows each man about 45 minutes in which to tell about himself. He is made to feel at ease so that he will talk naturally. Brief notes are taken of the chief impressions of each man, based on the following points:

1. Personal appearance—Is he clean and in no way repulsive?
2. Personality—Does he have enough distinctively individual characteristics so that he is not likely to be just one of a crowd?
3. Character—Does it appear that his record is good? This can later be checked from references.
4. Health—Is it good?
5. Industry and reliability—Has he made consistent, even though it may be slow, advancement in the various jobs which he has had?
6. Leadership—Has he had others working under his supervision and has he been a leader in activities in school or in his home community?
7. School record—Was it good?

During the interview it is customary to inform the applicant of the working conditions in the chain. In many cases the hours at first will be long and confining; he may be shifted from one city to another; his wages are usually low at first; and he will have to serve an apprenticeship of several years (as a rule) before being made a manager. If the applicant understands that exceptional opportunity carries with it a certain number of disadvantages he is not so likely to become dissatisfied after a few weeks or months of employment.

Physical and Mental Tests.—Certain chains require physical examinations for their prospective employees. The United Cigar Stores Company has given such tests since 1914, knowing that a certain amount of physical strength is required for its positions. The hours of employment are irregular, stores being open from seven in the morning until eleven at night, and the men working in shifts. In some places the stores remain open

on Sunday. Such conditions demand physical strength and stamina.

The W. T. Grant Company gives a written psychological test, and this must be passed satisfactorily if the applicant is to secure employment with the company. A minimum satisfactory grade is made up from the records of tests given to all managers, buyers, and other executives, and the applicant must come up to this minimum. The company has not given the test for a long enough period to know its definite value, but apparently the men who make the highest scores are advancing more

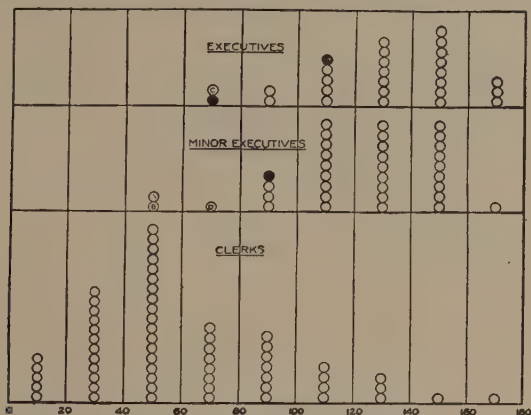


FIG. 51.—Showing the results of a mental test applied to every member of a large chain, from executives to clerks. Each circle represents one member of the organization. Executives of the company all scored above 60, minor executives averaged 119, while in the clerical group the average was only 55. (*Forbes Magazine*, Jan. 21, 1922.)

rapidly than those with lower scores. One large chain organization with headquarters in New York has gone so far as to test its entire personnel for mental alertness. The old process of trying out a man on a job was not furnishing minor executive positions fast enough to fill the demand. The problem was put up to the Bureau of Personnel Research, an organization connected with the Carnegie Institute of Technology. C. S. Yoakum, the director of personnel research for that institution, gives the following account of results.

Figure 51 shows the results obtained. The organization was divided into three groups: executives, minor executives, and clerks. These

groups correspond to distinct divisions within the company. The scores, and the number of individuals making each score, are shown. The highest possible score is 184. Five clerks, for example, made scores between 0 and 20, while only two made scores above 140. In plotting the chart not all the clerks were taken, but only a representative group. If all the clerks were shown, the distribution of scores from low to high would be in the same proportion as is illustrated. Above the line of the clerks, however, each small circle represents an individual. The chart as a whole represents accurately the distribution of scores of the company's 2,000 employees.

The executives of the company all scored above 60 in the test, and only four fell below 100. The average for the group was 127. The minor executives ranged all the way from 45 to 166, while the average was 119. In this group only seven individuals out of thirty-five fell below 100. In the clerical group the range of scores was extremely wide—from 3 to 160—but the average was only 55. Only 15 per cent scored above 100. The individuals composing this 15 per cent are just as intelligent, just as mentally alert, and have just as great capacity for acquiring knowledge and skill as have the executives of the company. Comparing the averages of the groups, however, it is clearly shown that different levels of intelligence are represented by the different groups.

The black dots on the chart indicate that one executive and one minor executive left the company because of inefficiency before the results of the test were known. The circle marked *A* indicates a minor executive who took four years to absorb that training usually given in one. Circle *B* represents a man whose position is due solely to long experience and training, but who will probably never go further. *C* is doubtful but is being given another chance.

As a result of the tests no minor executives were hired unless they scored above 80 and between 80 and 100 only if other qualifications were specially good. After being in operation ten months, Fig. 52 shows the results secured.

One hundred and thirty-three applicants have been examined. Eighty-two have been rejected. Twenty-four were automatically rejected because they scored below 80 in the test; 20 others scoring between 80 and 100 were rejected because of low score and the lack of any other specially good qualifications. The remaining 38 were rejected on other than a mental alertness basis. During the same period 51 applicants were accepted. Two of this number scored between 80 and 100, and were hired because of very good recommendations. One of these has already been asked to resign because of his inefficiency. Forty-nine of the accepted applicants scored above 100. Of this number only five have proved unsatisfactory, though two others have resigned

for outside reasons. Forty-two, or 82 per cent, are making good and will furnish dependable material for the making of future executives. The company considers this a successful ten months of selection. Hereafter the critical score will be set at 100.

Intelligence, of course, is not the only requisite for an employee of executive caliber, but it is an essential qualification. Tests

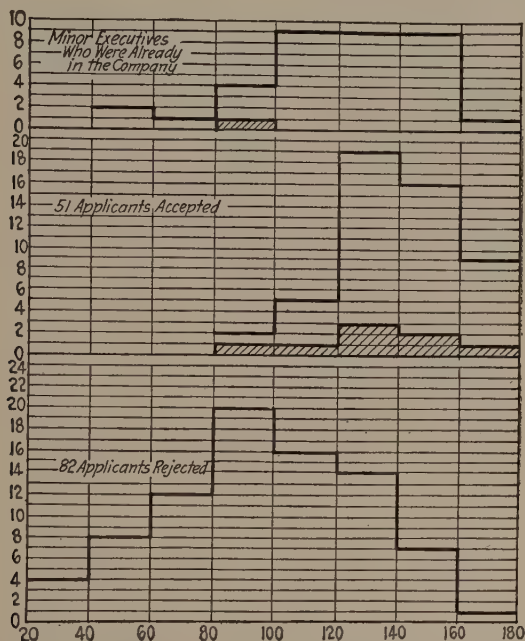


FIG. 52.—Of 133 applicants for minor executive positions examined during a period of 10 months, 82 were rejected and 51 accepted, of whom 42 are making good. The figures at the right represent the number of applicants and the shaded parts resignations. (*Forbes Magazine*, Jan. 21, 1922.)

for other qualifications are being carried out and developed. The aim of the intelligence test is, as Mr. Yoakum says:

. . . to measure human capacities in observation, in concentration, in simple reasoning, in understanding, and in handling ideas according to instructions. All of these human intellectual powers become of increasing importance as business responsibility increases.

Age as a Factor in Employment.—The chain organization generally wants men under thirty. The average age of employees

entering one of the largest chain organizations is from twenty-two to twenty-five. This does not mean that no men over thirty will be considered, but it does mean that they will have more difficulty in satisfying the chain that they are best fitted for employment in its organization.

Those chains which prefer youthful employees stress greatly the energy and enthusiasm of youth. In the grocery business, particularly, there is a great deal of hard work connected with the routine of taking care of stock. Young men, furthermore, are likely to dress better, keep cleaner, and take more readily to the standard chain methods and policies. They can be shifted from one store to another, because they have not formed roots in the community. They are ambitious—usually more so than older men—although one large chain found in its experience that men over thirty were too ambitious and wanted to advance faster than was consistent with steady progress.

On the other hand, there is much to be said for the older men. They have had the advantage of greater experience of the world. They are likely to be more careful in their work, although this may be offset by their being slower. Older men, furthermore, are likely to go home at night, and be fresh for the morning's work. Younger men like to enjoy themselves in the evening. Older men are as a rule more loyal to the organization than young men, who are looking for an opportunity to advance by the shortest possible route.

Men who come into the chain after they have reached thirty-five may make reliable and efficient store managers, but it is doubtful whether they will rise to any high executive position.

Education.—In the days of the chain store pioneers, there was a general prejudice against employing anyone with too much education. As F. W. Woolworth expressed it "I prefer the boy from the farm to the college man. The college man won't start at the bottom and learn the business." And in a certain measure he was right. The chain store organizations were not built up by college men, nor were the great department stores.

The modern view as to education is that it is to be considered neither as an overwhelming advantage nor as an absolute detriment to employment. The college man should be considered solely on his fitness for the position. Education suited for the

business world is not necessarily gleaned in the classroom. Some chains require a certain minimum of education, however, such as a high-school diploma. This should be sufficient to enable him to assimilate better the merchandising knowledge which he must acquire before he can hope to be appointed manager.

Experience.—A great many chains prefer to get men without experience. Since all employees ordinarily have to start behind the counter in the chain, men who have previously worked elsewhere sometimes object to this preliminary drilling in fundamentals. They fail to see that each chain has its own policies which each member of the organization must accept and back up. It is possible that a man may have too much to unlearn. A man of the right type, however, will probably have been benefitted by his previous experience in retailing.

So far as the woman clerk is concerned, the New York Department of Labor reports that the selection of the girls for the jobs is governed by what type of girl can be obtained at the particular time she is needed for the lowest wage the market offers. Its finding was that any idea of a permanent, satisfied, well-trained working force was strangely absent; girls came and went. This was particularly true in factory towns, where the girls in good times worked in a factory and when they were laid off or got tired of factory work clerked in five-and-ten-cent stores for a while.

Moral Tone.—Honesty and trustworthiness are two qualities which it is obvious must be required of employees. The store manager and often the clerks are handling money constantly. Hence, it is highly important before hiring a man, to have him account for his time prior to employment, so that, if there is any flaw in his record, it may be looked into.

It is desirable, as a rule, to make sure that the new employee can live on the beginning salary he is to be paid. Young unmarried men are preferred often on this account. Those who live with their families are good risks—better than those who live in furnished city rooms. One chain interviews the applicant's family before giving employment, both in order to check the applicant's story and to see at first hand whether the step will be a wise one from the applicant's own personal interests.

The Employment of Women.—Women are not only employed behind the counter but in certain chains they are favored as managers. For example, in the MacDiarmid Candy Company chain all the managers, and practically all the other employees are women. In Kuhn's five-ten-twenty-five cent stores, a southern variety chain handling popular priced dry goods mainly, women are used as store managers for certain definite reasons, as follows:

There are few promotion possibilities for ambitious men in stores located in small-sized southern towns, as are the stores of this chain. Executive positions at headquarters are filled and few vacancies occur. Local women who have already had retail experience are hired, and they are given intensive training under the district manager in the store they are to manage. They have a job which is better than any they could otherwise hope to get. They have no hope for any advancement and are likely to be permanent members of the organization. The manager does part of the waiting herself; has few reports to make; and is left largely to herself after she becomes established. Women are found to be naturally neater than men, which means that stores are always clean. Furthermore, women, particularly negro women, like to shop where there are no men present. The chain believes these women are more honest than men would be; most of them are either unmarried or are widows; women with children are never considered.

The greatest weakness of these women managers is in window trimming and store display. District managers must be relied on to see that windows are trimmed efficiently.

In 31 out of 38 grocery stores operated in Buffalo by the Larkin Company, women are managers. This concern also believes that the disadvantages are small in comparison with the advantages. Women managers of equal ability with men are obtained for less wages. This was the initial reason for trying out a woman as store manager, because the slight difference between her wages and that of a man manager made the difference between loss and profit for the store. Women have been found more willing to undergo the long period of training as a helper without becoming discouraged. Many of them never expect any further advancement. The chain does not discriminate in

wages for women managers if they are able to produce the same results as do the men. The commission on the sales is the same for both sexes. Women are found to be better stockkeepers and storekeepers than men. This chain thinks they are as effective in display work, and that they take more time and pride in it. Women are also just as good in keeping store accounts. They are able to enter into the life of the neighborhood better than the average man.

Disadvantages are the labor laws of New York State which restrict women's work to 54 hours a week. The store remedies this requirement by having women take a sufficient number of hours off during slack periods in the week so that they can take charge of the store Saturday evenings.

Cases of goods are carried into the back room for them, and they unpack them a few cans or lots at a time. Rarely is any friction found to exist between women employees.

CHAPTER XVI

TRAINING OF EMPLOYEES

The chain store organization trains its employees as a matter of profit to itself and not from any altruistic motives. It trains them because thereby it makes them much more valuable to itself. Obviously, it would be little use to instal a training department if the rate of turnover in the chain is high, because no chain would care to train its employees merely to have them use this training in the service of another chain.

The chain employee may be trained before he actually goes behind the selling counter, and he may be trained after he is on the job. The educational department ordinarily takes charge of the actual training of the new employee. Some chains carry on training in sales schools at headquarters; others carry on training by correspondence, a method which is not so satisfactory but which can be made to produce results even with its obvious disadvantages.

Where stores are located at distant points, training of new employees may be conducted at district offices. For example, a chain with an educational department in Chicago might refer an applicant in Maine to district offices in Boston. If the application were accepted, the salesman might be trained direct in the Boston district office, and receive his first selling experience under supervision in the district store.

Almost every chain has a particular policy in regard to the conduct of the clerk while making a sale. It is important that this conduct be standardized. A customer going into one branch of the chain should find exactly the same service that he finds in another branch. The only way to standardize service is to teach the man just what is wanted in the first place and then make him hold to that standard. Therefore, one method of training, although a negative one, is keeping inspectors on the road, unknown to the clerks, to see whether policies and practices are being carried out.

Training-course Subjects.—While each chain will have certain subjects which it will desire to include on its training program, the following topics apply to all chains alike:

1. *Instruction in Chain Policies and Organization.*—Ordinarily something is said about the executives of the chain, its manufacturing plants, if it has any; its main offices; its history; and its plans for the future.

2. *Knowledge of the Product or Products Sold.*—The importance of this topic will naturally vary with the type of chain.

3. *Stockkeeping, Including Arrangement of Stock in Store, and Methods of Inventory.*

4. *Salesmanship, as It Is Regarded by the Chain Management.*—Generally the chain will have worked out certain policies and perhaps regulations which employees are to carry out when making a sale.

5. *Treatment of Customers.*—In this category comes first the courteous treatment of customers under all conditions.

6. *Store Routine.*—Each store manager will have certain reports to fill out, and certain duties to perform daily. These are sometimes taught to the employee before he begins his work, or at least he is familiarized with them.

The Sales School.—One of the leading executives in the drug chain field constantly stresses the theme that “for every dollar that is left in our store, there’s another dollar that walks out because it wasn’t properly invited to stay.” That is, the sales force was not fully functioning as an effective unit. It is to overcome, or at least to lessen, sales lost for avoidable reasons that many chains conduct sales schools for employees. The fundamental purpose of these schools is to teach salesmanship, not only the best method of delivering the sales talk, but methods of meeting customers’ objections, and the ability to explain about the product.

A chain, the store units of which are closely grouped, can conduct a sales school with personal attendance of managers and clerks. The May Drug Company, of Pittsburgh, for example, has a school the term of which opens about the first Monday in September, and continues to June 1. Classes are conducted at least weekly, and sometimes more frequently.¹

¹ See article on how the sales school works by F. W. Walker, general manager of the chain, in *Chain Store Age*, May, 1927.

Not all clerks go weekly to class, as these classes are arranged in accordance with the eight departments of the store, and there is a ninth class to which those employees who are below on their sales averages must attend. If clerks so desire, they may attend classes for departments other than their own. Classes are held in the afternoon, and take about two hours. Store managers are responsible for seeing that clerks leave stores on time to get to their classes.

This school is under the supervision of the general manager of the chain, with two instructors and three associate instructors, each a specialist in a particular branch of store management, under him. Instruction is carried on by first explaining and then demonstrating. An actual sale is made while the class and the instructor criticize.

When a new clerk is engaged, the instructor of store training takes the new employee to the store classroom, where sales routine is explained. As soon as the clerk is assigned to a store, the instructor spends another day in getting the clerk started right.

The Regal Shoe Company found itself obliged to organize a Training School for its employees, which is located in New York City directly above one of the company's stores. The personnel manager is in charge of training at the main school, with an assistant who conducts the work on the Pacific Coast.

The chain started out to give the course to all store managers.¹ Then it started the training of old and new salesmen in the New York District, taking five or six men at a time. The stores outside New York are visited by a member of the personnel department, and all new employees are trained thoroughly at this time. Students are paid a small salary while training, which takes about two months, although adequate training may be given in about three weeks.

It is customary to have the students spend the morning in the classroom and the afternoon in the store, as well as giving him homework to do also. His actual selling training does not begin at once, but he is led up to it gradually. He is first allowed to greet and seat customers and then watch while experienced salesmen take charge of the rest of the sales operation. When

¹ Full account in *Chain Store Age*, October, November, 1927.

the student actually starts his selling, he is visited once a day for a while to see that he is doing it correctly. As soon as a student is skilful enough, he is used as an "extra" on Saturday afternoons.

In addition to lessons in selling, the student is taught arrangement of stock, how to make sales checks correctly, how to make exchanges, how to arrange for repairs, how to treat complaints, and how to handle special orders. He must also learn the standardized method of selling hosiery, boot trees, dressings, and findings. Not many companies have gone to such an extent in overseeing employee procedure.

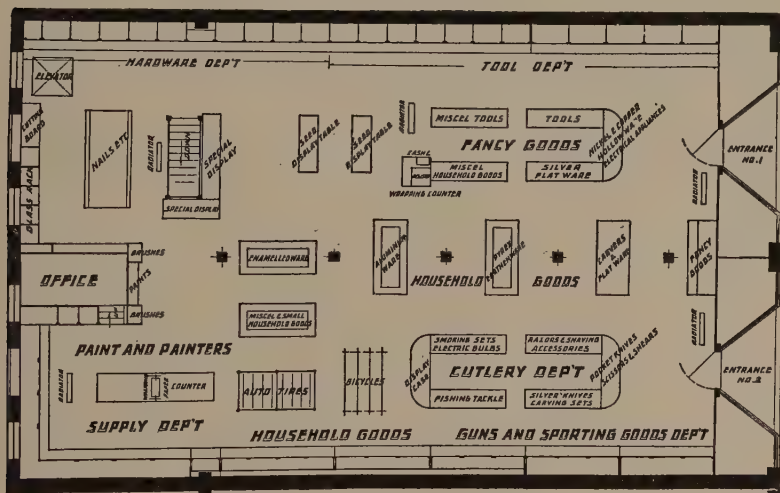


FIG. 53.—Floor plan of model Winchester store.

The Model Store.—When salesmen are trained at a central point, it is advisable to use a model store, identical in all respects with a regular store unit. This will serve two purposes. It will give the salesmen a practical illustration of what is being taught them, and it will serve the company as a model for window trims, and for making experiments of various kinds in selling. The model store should be a laboratory for the entire chain. Both the Regal Shoe Company and the May Drug Company use the model store in instruction work.

Figure 53 shows the floor plan of a model Winchester store. Contrary to the layout in many hardware stores, there is nothing

to obstruct the view, no rolling ladders along the wall, nothing cumbersome in the center of the store, and no goods suspended from the ceiling. Goods which show up well in displays, such as specialties, fancy goods, tools, cutlery, or sporting goods, are in the front of the store, while the more staple lines are in the back or in the basement. No stock is carried above the ledges along the side of the store.

Whether the clerk has to arrange displays in his own store or not, he must be taught at least an understanding of the value of display. The model store is dressed differently every week. Window displays are changed and counter displays of stock are altered. A complete rearrangement takes place to care for seasonal demand. Articles in the greatest demand are featured in the windows, on the counters, by floor displays, or by displays around pillars or columns in the center of the store.

Training by Correspondence.—The chief disadvantages of the correspondence method of training is the difficulty encountered in sustaining interest at long range. The J. C. Penney Company, however, has been quite successful in long-distance instruction. The primary feature of the course is a series of 17 lessons, calculated not only to lead to general efficiency, but to specialize its employees in the working principles of the Penney stores, so that executives for new stores may be taken from the ranks of old employees. These lessons are as follows:

- Lesson 1. The Unfolding of Business.
- Lesson 2. Company Principles and Policies.
- Lesson 3. General Salesmanship.
- Lesson 4. Salesmanship—Personal Analysis.
- Lesson 5. Relation of Salesman and Customer.
- Lesson 6. Knowledge of the Goods.
- Lesson 7. The Retail Sale.
- Lesson 8. Following Up the Sale.
- Lesson 9. The Market in Which We Buy.
- Lesson 10. The Market in Which We Sell.
- Lesson 11. Stockkeeping.
- Lesson 12. Lesson Review.
- Lesson 13. Business English as a Business Asset.
- Lesson 14. Letter Writing.
- Lesson 15. Thrift.
- Lesson 16. Personal Organization.
- Lesson 17. From Potential to Actual Partnership.

Each lesson is covered by a list of ten questions which pupils answer in writing and turn over to the store manager, who, in turn, sends them to the New York office. The store manager, with his personal interest in the business, is responsible for distributing the lessons and seeing that they are handed in and forwarded. Papers are marked and accompanied by a typewritten criticism. The course is entirely free of charge, even to women employees, who are debarred from further advancement by the rule of the company that only men may become store managers.

As soon as the regular course is completed satisfactorily, those who desire to continue are given an opportunity to do so. There is a special course in advertising in four lessons; special texts of retailing are selected upon request.

The sales manager of the Louis K. Liggett Company uses twelve lessons multigraphed on about a hundred pages. A series of questions follows each lesson which must be answered and returned within two days after the employee has received the lesson. The following questions are typical of what the employee must answer:

What is meant by consumers' buying power?

What is the best method to adopt to successfully impress your customers with your selling points?

What are you doing to obtain the necessary selling points about the merchandise you are selling?

Name five articles in your store, and the selling points and buying motives connected with each of them?

Are your sales improving? Base your answers on results.

Knowledge of Product.—Chain salesmen should be given thorough instruction in the stock they handle, its uses and ingredients, the processes of manufacture, how and why goods are packed in certain ways, the origin of raw materials, and any additional data of value.

The Liggett clerk is supposed to be able to answer 12 questions about every product sold in the store:

WHAT is it composed of?

WHAT is it used for?

WHERE is it used?

WHEN should it be displayed?

WHEN should it be used?

WHEN should it be suggested?

WHY should it be used?
WHY should the customer buy it?
HOW should it be used?
HOW should it be displayed?
WHO can use it?
WHO will buy it?

Taking theatrical cold cream as an example, the clerk would be supposed to answer as follows:

WHAT IS IT COMPOSED OF?

White wax, liquid petrolatum, borax, water and rose perfume. Knowing this, the absolute purity of this cream is apparent.

WHAT IS IT USED FOR?

As a massage cream, as a cleansing cream, for removing dirt and dust from the pores of the skin after automobiling, as a soothing, healing application after shaving, it prevents roughness and relieves chaps and redness, wonderful as a relief from sunburn and exceptionally good for the removal of make-up by the theatrical profession.

WHERE SHOULD IT BE DISPLAYED?

Naturally, creams are suggested with face powder and soaps; so you should display theatrical cold cream on the fancy goods department with a clean sign right next to face powders and soaps and any other toilet articles. And so on, with the other questions.

The Dow Drug Stores, before a special sale, has found it valuable to prepare a tabloid essay on the product to be featured. This contains information about the raw material, how it is put together, the exceptional uses of the product, the differences between grades, how goods should be cared for by their buyers, etc.

To quote from *Drug Store Merchandising*:

One copy goes, by the firm's courier, to every Dow store, and must be receipted for by the manager in charge. It must be posted at once and every employee is responsible for its contents within a reasonable time—a few hours, that is—after posting. There can be no excuse for not having read a bulletin bearing the imprint of the president's office; instant dismissal is the reward of a proof of this charge!

Following is a copy of the bulletin sent out on the subject of chamois:

THE PRESIDENT'S SALES PROMOTION BULLETIN No. 11

CHAMOIS

To the Dow Sales Force:

As you already know, on the 16th inst. there will go on sale in our stores a big bargain in chamois. This is a special sacrifice price and we probably can't continue these prices after this lot is sold. Chamois will give better service and last longer if they are properly cared for. Water which is too hot, or extreme heat when drying, is injurious. Leaving the skin wet, without wringing it out, when not in use, is also destructive. Strong acids and impure strong soap should not be used on chamois. It is also better to have special chamois for rough, dirty work. After being used, chamois should always be washed thoroughly, in lukewarm, soapy water; using good soap. Then rinse in clear water, wringing the chamois as dry as possible, pulling it out as nearly as possible to its original shape and hanging it up to dry. Do not dry it on a radiator or other hot place. Do not let chamois lie around dirty for a considerable period, but wash as soon as possible after using. Chamois themselves will not scratch the finest of surfaces, but if they are allowed to accumulate dust, grit, and dirt they will not prove satisfactory, unless they are washed thoroughly before using.

All these points should be carefully explained to the customer as a matter of DOW SERVICE. Most of the customers in your store next week are possible purchasers and you should suggest chamois to each of them. These chamois have been retailing anywhere from \$4 to \$5, and if the customer already has a chamois don't fail to suggest the purchase of additional ones now as a matter of economy, because the price will be higher. Suggest the various household uses—cleaning pianos, furniture, windows, mirrors, interior woodwork, and polishing floors, bathtubs, wash stands, pictures, lamps, sewing machines, and all such similar articles, and then, of course, their very general use for automobiles.

These chamois are absolutely "firsts," that is, perfect in every way. Many chamois sold are "seconds," and have in them thin places, hard spots, rough spots, and various blemishes. There is not a second in this lot. These chamois are not racked chamois. A racked chamois is one which has been wet in manufacture and then stretched and tacked to a board, or in other ways held in place until it is dry. It is then much larger, but when it is again wet and dried it will shrink back to its original size. A racked chamois can frequently be told by small tack holes around the edge. This is good selling talk.

D. C. KELLER,
President and General Mgr.

There are other ways, of course, of instructing the sales force as to the product, but this method has the advantage of novelty and, by concentrating sales effort on the article or product described, the clerk is able to see immediate results. Thus, his

cooperation is secured. The majority of small chains have to educate their clerks after they are hired. In all chains there must be a constant driving effort to keep clerks up to the mark.

Training in the Right Arrangement of the Store.—The arrangement of branch stores is strictly in accordance with the arrange-

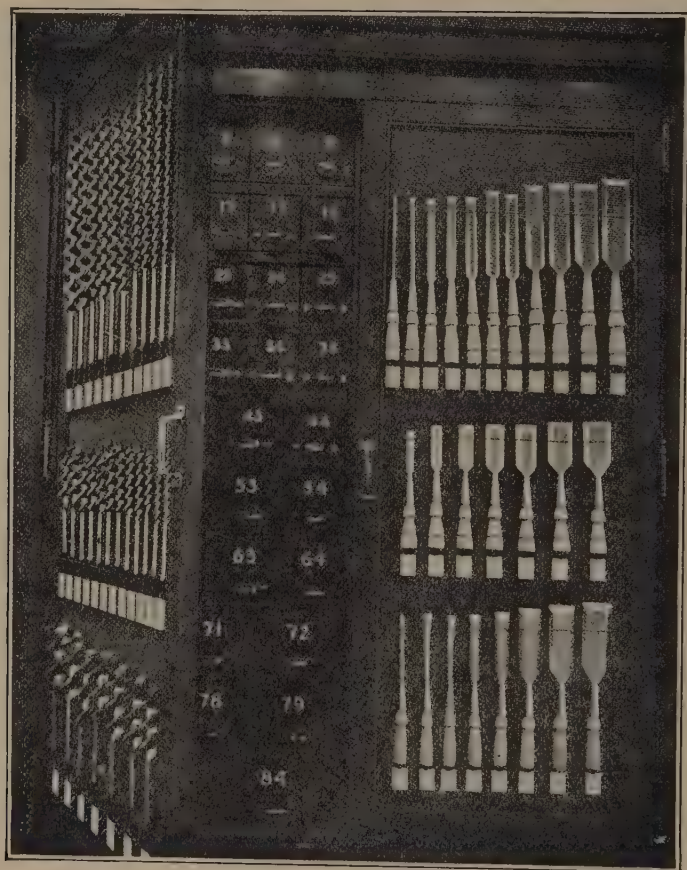


FIG. 54.—Section of display panel in Winchester store.

ment of the model store. In fact, arrangement is perfected in the model store. The model allows for variations in stock, due to different localities and their varying tastes, etc. The manner in which the stocks may be alternated is shown. All the changes in stock will take place at one point, or, if at more than one point,

the salesman is taught exactly where to look. The character and the nature of the article in those particular places indicate to him what has been dropped or changed in that store. Methods for adding new counters or tables to handle additional stock during heavy seasonal demands, as in the holidays, are shown.

Figure 54 shows the arrangement of stock in the Winchester model store. In this store every item carried in stock is shown in display. Goods are stocked behind the panel doors shown in the illustration.

A thorough knowledge of the arrangement of stock as plotted by the central office allows clerks to be shifted from one store to another in the same chain without the slightest confusion. It is another step in standardizing sales service.

Treatment of Customer.—The customer must be treated in such a way that he will come again. Many chains have found it highly profitable to make out a standard set of rules for courteous treatment of customers. George J. Whelan said if he wrote a Bible for salesmen, the first commandment would be "Say Thank You." Salesmen are given a specific order; reading as follows:

THANK YOU

Always acknowledge a purchase with a genuine "Thank you, Sir," or "Thank you, Madame," or some variations of the phrase, as, for example "Many thanks," or "Much obliged to you." Say whatever you say out loud as if you meant it. Under no circumstances must this rule be violated.

Then one day each clerk in the organization received a telegram reading: "Did you say 'thank you' to every customer you waited on today?" Some answer had to be made and replies flooded the central office. Mr. Whelan has chosen the "thank-you" phrase as the slogan of courtesy for the clerk.

In some chains clerks are told to remember the names of customers. All these, of course, are old tricks of salesmanship, but the chains have done more towards making a scientific study of retail selling than any other retail organization in the country, with the possible exception of some department stores.

Other chains dwell on the value of a smile when making a sale, others on an even, well-trained voice. But the point is that the chain organizations train their men to treat customers in such a way that they will become regular patrons.

Service may mean many things, but the chain store definition is service by the salesmen to the customers. For example, the following paragraphs show the idea of service which is taught by the Walgreen Company, which operates 36 candy and drug stores in Chicago and vicinity (quoted from *Drug Store Merchandising*):

1. Employees who are not polite to every customer have little chance of getting on whether in our employ or in the employ of someone else.
2. When the impossible is asked for—be pleasant, that is service.
3. Give each customer your whole attention.
4. Give as much attention to a little buyer as to a big one.
5. Always be circumspect.
6. When an article is not in stock, show a painstaking desire to get it for the customer.
7. Render this service with as much promptness and as little trouble to the customer as possible.
8. See that your floors are always clean—they mean reputation for the company.
9. Service is a matter of attitude as it is of action. You must bear in mind that service without wholeheartedness and simple kindness is useless.
10. Service is advertising that pays. Such advertising is in your power to create.
11. Your ability is judged by your power to cooperate. You progress by your capacity and willingness to cooperate.
12. Executives maintain their positions because they can cooperate with other executives and with their co-workers.
13. Make your cooperation wholehearted and real. It is more than obeying or giving orders. It means working with one's fellows in a spirit of helpfulness and good fellowship. It means avoiding the friction of inattention, deceit, selfishness, egotism. In other words, it means teamwork.

The chain store possesses one important advantage over its independent competitor. With the exception of five-and-ten-cent stores and other chains where the mere sales clerk has little or no opportunity for advancement, the chain clerk finds that his service to the customer actually pays him in cash. Where a man's own interest is concerned, there is ordinarily little difficulty in obtaining first-class service for the customer.

Inspectors.—Unless the company devises some method of keeping track of the salesman's attitude towards the customer, the high standard which has been set by the educational department will be lowered. Sales bulletins and letters may help, but the only way of actually overseeing the attitude of the clerk is by personal observation. This is comparatively simple where the chain is a small one and the links closely connected. Differ-

ent members of the organization may take turns inspecting retail service.

But with the larger chains it is necessary to employ inspectors who are unknown to the employees in the different stores. These inspectors ask innumerable questions before purchasing small articles. They may even try to annoy the salesman deliberately with a view to ascertaining his reaction.

It is frequently found that no endeavor to be insulting on the part of the inspector succeeds in ruffling the composure of the salesman. He neither loses his temper nor can he be tempted into making a discourteous retort. He frequently sends the customer away in the best of humor.

It often develops in the course of these inspection trips that points are noted which prove important enough to be incorporated in the store manual. This, after all, is the most important part of the inspector's work. Although employees who do not reflect credit on the company's training are eliminated, the constructive selling ideas obtained are of great benefit. The functions of the inspectors are as follows:

1. They test the knowledge of the salesman in regard to his stock.
2. They find out whether he is tactful, polite, and considerate even under provocation.
3. They determine whether the salesman seeks to give real service to the patron.
4. They collect new selling ideas which may be applied with profit to the entire organization.

There are, of course, objections to this practice; but, in general, it makes for the store's efficiency.

The United Cigar Stores Company uses inspection for checking up the physical condition of the store. Three forms are used, according to John Blakely, assistant vice-president, writing in *System*:

1. Survey of front form. Spaces are provided for the following items:

- (a) Reflector sign. Is it clean? Are all bulbs burning?
- (b) Window lights. Are shades clean and all bulbs burning?
- (c) Vestibule light. Is globe or reflector clean and lamp burning?
- (d) Awning. Any rips, broken parts, or missing tapes?

(e) Window display. Is it well trimmed? Are windows clean? Is the window display well adapted to the location?

2. Survey of store front form. This covers such items as the cleanliness of the floor, the showcases and mirrors, the counter display racks—such as gum jars and candy cases, pipe display cases, and other articles peculiar to the nature of the store's business.

3. Review of store form. Space is provided to indicate condition of all display cases and stock contained in them as to whether it is properly dated and priced and its general condition as to salability.

The Saleswoman.—Far less has been done in training women in salesmanship, principally because, as mentioned before, the chain's efforts have been directed towards educating men for store managers and higher positions. But there are signs that executives are beginning to realize the advantages to be gained by training the salesgirl. The following is taken from a notice to managers:

Do you realize that the point of contact with the buying public is through your salesgirl? At first thought, some of your managers may be inclined to disagree on this point. A few may think that we are trespassing on their ground. But consider this: A manager's time must necessarily be divided over a great many duties. This does not leave him free to spend his entire time behind the counter. Therefore, he must rely, to a very considerable extent, upon the cooperation and loyalty of his salesgirls.

Are you managers just paying the salesgirl her weekly wage and dismissing all further responsibility towards her? Or are you giving her a little insight into your business? Have you convinced her that yours is a Quality store and that she has every reason to be proud of standing behind your counters and selling Quality goods? Have you made her feel that she has a responsibility in the successful operation of your store?

The New York Department of Labor found in one of the smallest up-state stores a system which used an "efficiency rating card" for giving sales stimulus to the girls. The manager, who was new and young, gave the girl with the highest rating every week a bonus. Rating was apportioned as follows: 10 per cent for discipline, tidiness, etc.; 10 per cent for general appearance of counters and shelves; 5 per cent for having counters and shelves filled; 5 per cent for having paper and cord on hand; 15 per cent for having merchandise displayed for selling merits;

15 per cent for having the undercounters clean and in order; 15 per cent for having the price signs in the right places; 10 per cent for remembering to register money before wrapping; 10 per cent for care in reducing shrinkage; and 5 per cent for politeness to customers. The small allowance for politeness is significant as showing the attitude of the five-and-ten-cent store towards the actual manner of making sales.

For a store which, like the five-and-ten-cent store, must keep expenses down to the minimum, such a system offers an inducement to the girls for good service and at the same time does not appreciably increase wage expenses. One five-and-ten-cent-store chain has a special training force of six women who are constantly on the road opening new stores, selecting employees, and adjusting grievances in stores already opened. Another chain endeavored to encourage local managers to start classes among the salesgirls for training in salesmanship. One of the general letters sent out by this chain for these training classes shows the type of educational matter best fitted for the salesgirl.

GENERAL LETTER

TRAINING OF SALES FORCE

The following article is copied from a current magazine:

A CAUSE AND A CURE

Desiring to learn the reason why certain retail customers had discontinued buying goods from them, a large department store made an investigation among 197 households, as a result of which they compiled the following statistics. Here is what the customers gave as their reasons:

1. Indifference of salespeople.....	47
2. Attempts at substitution.....	24
3. Errors.....	18
4. Tricky methods.....	16
5. Slow deliveries.....	17
6. Over-insistence of salespeople.....	16
7. Insolence of salespeople.....	16
8. Unnecessary delays in service.....	13
9. Tactless business policies.....	11
10. Bad arrangement of store.....	9
11. Ignorance concerning goods.....	6
12. Refusal to exchange goods.....	4
Total.....	197

The fact which is most forcibly brought out in these statistics is the large percentage of reasons given for which the clerks or salespeople were directly responsible. These are the ones numbered 1, 2, 6, 7, and 11 in the table shown.

Here are 109, at least, out of the 197 households interviewed, or a little over 55 per cent, who gave such reasons as indifference, insolence, ignorance, and over-insistence on the part of the sales people as the cause of the discontinuance of their patronage.

When it comes down to a final analysis of the situation, the clerks were not so much to blame as the store management . . .

In this connection, we cannot overemphasize the importance of the saleswoman's position in your store, as the connecting link between the management and the customer.

The advantage of training men for promotion has been amply proved by experience. The advantage of training salesmen and salesgirls in standardized chain methods of service and salesmanship is becoming more and more apparent.

A certain five-cent to one-dollar chain uses the sponsor system for training its salespeople. That is, the new girl is put under an older employee for instruction in store rules, operating system, and policies. Supplementing this is a sales manual covering details of her work. The sponsor shows her how to operate the cash register and handle sales. Much of her work is in the care of her stock, and this, therefore, forms a major part of her instruction. But in addition she must be taught how to handle customers quickly and tactfully.

The Kresge Personal Efficiency Chart.—In order to obtain better-trained salespeople, and to arouse a desire for promotion in the personnel generally, the S. S. Kresge Company has devised a personal efficiency chart. The employees of the chain are asked to check themselves on a scale of 100 points, as follows (reported in *System*):

1. Dependable—10 points:

1. Promptness.
2. Regularity.
3. Responsibility.

Ask yourself these questions: Am I dependable—that is, can I be depended upon to be prompt at my work and in all appointments? Can I be depended upon to be regularly at my work every day, or must

substitutes be found frequently? When something is left to me to do, is it done? Am I responsible? If you can say "Yes, absolutely," to each one of these questions, you would check 10 points on dependable qualities.

2. Appearance—10 points:

1. Neat.
2. Attractive.
3. Buoyant.

Am I neat? Is my hair kept well combed? Do I keep my clothing clean and well pressed? Do I appear attractive, or do I repel? Would I like to meet and talk with a person like myself? Am I buoyant in my manner? That is, do I walk and take sufficient out-of-door exercise to keep me alert, vigorous, and healthy?

3. Manner—10 points:

1. Cheerful.
2. Patient.
3. Sympathetic.
4. Enthusiastic.
5. Courteous.

How does my manner impress others? Am I cheerful? Do I have patience when things go wrong? Am I sympathetic with those who are unfortunate? Am I enthusiastic over my work as well as my play? Am I courteous to my associates, my family, as well as to my customers, who indirectly pay my salary?

4. Industry—10 points:

Am I industrious? That is, do I apply myself to my work? When I have something to do, do I do it, thus accomplishing things as the days go by?

5. Loyalty—10 points:

1. Careful.
2. Faithful.
3. Honest.

Have I the qualities of loyalty? Am I careful with the things trusted to my care? In preventing breakage in the handling of merchandise? Am I faithful with the minutes and hours that belong to my company? Am I honest? Can the money of others be entrusted to my care?

Do I ever speak untruths? Do I realize that to be loyal I must have all of these qualities?

6. Mental—10 points:

1. Tact.
2. Judgment.
3. Imagination.

What are my mental qualities? Am I tactful? Am I diplomatic, or do I rush into trouble? Do I exercise good judgment, or, when things are left to me, do I do the wrong thing? Have I imagination? Am I quick to picture a woman buying a clothes line as requiring new clothes pins and some hooks to fasten the line up with, which might result in a suggested sale?

7. Initiative—10 points:

Have I initiative? Have I the qualities that enable me to see things that need doing without being told? Do I make recommendations to those above me for the betterment of displays, or improvement in service?

8. Cooperation—10 points:

Do I cooperate with others? Am I pulling together for the good of all? Or must I work alone in my individual way? Am I willing to give up individual taste for the benefit of those at home? Do I realize that we are all dependent upon one another and therefore must pull together?

9. Knowledge of Merchandise—10 points:

1. How made.
2. Of what.
3. What used for.
4. By whom.
5. When and where.
6. Care of.

Have I knowledge of the merchandise in my department? Do I know every item in the department? Do I know how it is made? Do I know what it is made from? Can I tell what it is used for? Have I ever thought who requires or uses it? When and where do they need the articles I sell?

How should I take care of this merchandise while it is in my department? Do I ever look into an encyclopedia and other books and read about the merchandise I am selling?

10. Knowledge of Store—10 points.

1. Policies.
2. Department.
3. System.

After I have learned about my department, have I learned about the store as a whole? Have I tried to learn and understand its policies? Do I know all of the various departments? Have I studied and learned the system in use in each department?

CHAPTER XVII

MAINTAINING MORALE

The morale of an organization may be called its mental state. This mental state is not stationary, but is constantly fluctuating in response to the many influences brought to bear from all sides on the company and its employees. The company which maintains the morale of its organization at a high pitch is usually successful financially, because an upward trend in morale is directly reflected in profits. R. S. Woodworth says, in his book on "Psychology:"

Good morale means more than willingness for duty; it means "pep" or positive zest for action. Where the master is able, in the first place, to show the servant the objective need and the value of the goal, and to leave the initiative in respect to ways and means to the servant, looking to him for results, the servant often responds by throwing himself into the enterprise as if it were his own—as, indeed, it properly is in such a case.

The aim of all methods of personnel administration is to maintain this morale, and, where it did not previously exist, to build it up. Maintaining morale for the chain store organization is especially important because of the geographical distances separating the various links and the consequent impossibility of individual supervision of the personnel. Therefore, this feeling of interest in the company and its activities which is called morale must be kept up by other means.

In a factory, morale is a factor in production; in the chain store organization, it is a factor in selling. To obtain maximum results, it is necessary to analyze morale and ascertain by what means it can best be secured.

The Elements of Morale.—There are five points to be considered ordinarily by the chain management in its efforts to improve and maintain its morale:

1. The company must inspire the employee with confidence in it, in its officers, and in its policies. This is a necessary requisite for morale, since there can be no discipline and teamwork where there is no confidence.

2. The company must give its employees some financial interest in the business as a reward for efficient service.

3. The employee must feel he is working towards a definite goal. Through his own experience and by observing others he must realize that promotion is won mainly by his own efforts. He should be shown how he is progressing from week to week and from month to month.

4. The element of competition should be present. The clerk in the store should be able to compare his achievements with those of clerks in other stores. Furthermore, some degree of responsibility should be thrown upon his shoulders.

5. The company should try to make its employees feel that they are members of one family. That is, it must make them acquainted with each other and with the company. The employee should feel that what touches the company's welfare touches his as well.

No organization can score 100 per cent on the question of morale, but it is possible to maintain morale at a high level. It is generally accomplished by the use of some or all of the methods discussed in the rest of this chapter. Which particular methods are used depends a great deal on the size of the chain and on the size of the units in the chain. The question of morale in a five-and-ten-cent store organization has two aspects: first, the morale of the store employees in relation to the store, and, second, the morale of the store manager in relation to the whole organization. The small chain can do without, and, in fact, from motives of economic operation, must do without such methods of maintaining morale as the house organ. In the very small chain morale is enforced and maintained by daily personal visits of the executive. It is also possible for the various store managers to hold frequent conferences. But, although methods differ, the purpose remains the same, namely, to secure the cooperation of the employee in the activities of the company.

Methods of Creating Morale.—There are five ordinary methods of securing proper morale:

1. Conferences and conventions.
2. Letters and bulletins.
3. Contests.
4. Rewards and special bonuses.
5. House magazine.

The first two methods will make the employees interested in their work and confident in their own future as well as that of the company. Contests introduce the element of competition. Rewards and bonuses give that financial stimulus which chain organizations have found essential, and the house organ endeavors to create the family spirit, to acquaint the employees with the policies of the company, and to furnish a medium of publicity.

Conferences.—Conferences, of one kind and another, are essential. In all chains they should form part of the routine. There are several types of conferences: strictly business meetings, confined mainly to executives and store managers, and meetings which aim to introduce the element of good fellowship, such as dinners and conventions.

Conferences during the year are often held at stated intervals. Where chains are limited in geographical extent, all managers can usually attend. Where chains are more extended, district conferences may be held, and the problems brought up at that time discussed a second time in a conference of district managers. Conferences may take the form of dinners when it is believed the more informal atmosphere will lead to better results.

Where the personnel of a single store is fairly large, as in a department store or a five-and-ten-cent store, conferences and meetings should be held frequently. As mentioned previously, these conferences may be made the occasion of instructing salesmen and salesgirls in better methods of salesmanship.

Some chains have adopted a policy of giving outings to which all employees are invited. Such a policy increases the feeling of goodwill.

Special conferences may be held when the percentage of a certain member store shows a marked falling off. The entire staff may be called in to go over the specific problems of the

particular store. This avoids any unjust action. Reprimands often do more harm than good, especially as investigation frequently shows that bad conditions are due to external circumstances which are not apparent at first glance.

Some chains have an annual convention which all managers attend who can possibly do so. Policies and plans for the coming year are outlined and explained. The various local men have an opportunity to get away from the somewhat narrowing precincts of their own stores and to obtain a broader view of the organization in its entirety.

The utility of a convention for a chain has often been questioned, but under certain conditions it has been found profitable. For example, the R. J. Seidenberg Company, operating 17 cigar stores and stands, estimates that the convention is worth at least \$25,000 to the organization. In this particular case, the units are widely separated, and there is little other chance for inculcating *esprit de corps*. The convention served certain definite purposes. In the first place, it secured the cooperation of managers who hitherto had regarded suggestions and ideas emanating from the home office rather suspiciously. In the second place, it made service to the public uniform. Copies of the convention proceedings were made and distributed to all managers, and, since they contained numerous suggestions and advice, they served as valuable reminders. New managers are asked to write lists of questions about things they do not understand, and it has been found that such questions are pertinent and indicate careful reading of the convention proceedings. Finally, if slackness is noted on trips of inspection, a letter is sent from the home office asking the manager to read over the section of the convention proceedings which deals with the matter in question.

Bulletins and Letters.—Keeping up morale is a ceaseless task. Good advice and good intentions are lost sight of unless in some way brought to mind. The store manager appreciates help of this nature. He is constantly reminded of what he already knows but is in danger of forgetting in the stress of the day's work and the monotony of his routine.

Perhaps these bulletins give pointers and tips as to selling goods. Perhaps there is a list of averages in which he can

find the position of his own store. A mere list of changes in the price of products to be sold usually forms a part of the bulletin—and a necessary part—but it is just as necessary to keep in mind the question of the store manager's morale.

In writing these bulletins there is danger, on the one hand, of becoming too prosy and, on the other, to use the vernacular, of becoming too "peppy." There is a half-way point which will give the maximum of stimulus while avoiding giving offense. The following shows the heading used on a weekly H. C. Bohack Company, Inc. bulletin. It is the practice of this company to start with a three- or four-paragraph sensational story, which, while it points a moral, does not do so in an unpleasant fashion:

**HIDDEN TREASURE VALUED AT
SEVERAL HUNDRED DOLLARS
FOUND BURIED IN THE BACK
ROOM OF ONE OF OUR STORES—**

has caused much concern among the district superintendents and all the executives at headquarters.

WHEN BROUGHT TO LIGHT and displayed in the store, **CUSTOMERS CROWDED IN** eager to view, and **ANXIOUS TO BUY** the unusual array of valuables.

CHESTS OF MERCHANDISE, from various parts of the world were dragged out—Pineapple from Hawaii, Nuts from Brazil, Olive Oil from France, Spices from the Orient and many other items to stir the imagination for a Royal Feast.

DIG OUT your own back room. Every case, can or package that is out of sight of your customers is **BURIED TREASURE** that should be **TURNED INTO GOLD** through your cash register.

Bulletins such as this have been found to secure action, and have been used to show methods of improving the condition of stores, of speeding up turnover, or of showing the manager himself how to increase his salary or bonus.

The following bulletin was written some years ago, but is noteworthy for its careful mingling of instruction, suggestion, and stimulus:

Which one of the five senses produces the most dollars?

Is it the sense of sight—or the sense of hearing—or the sense of smell—or the sense of taste—or the sense of touch?

A recent investigation was made to determine through which one of the five senses sales were really made. The results were astounding: 87 per cent of the people bought the things they saw (in the windows, on the counters, in the showcases, etc.); 7 per cent bought as a result of hearing; $3\frac{1}{2}$ per cent through the sense of smell; $1\frac{1}{2}$ per cent through the sense of touch; 1 per cent through the sense of taste.

Think of it!—87 per cent of the people buy by sight. Doesn't that drive home the importance of attractive window displays? Doesn't that make you stop and wonder whether your displays are as attractive as they can possibly be? Doesn't that make you realize that the time and the effort you put forth to trim your windows are worth everything to you?

Maybe you are smiling as you read this. Perhaps you are saying to yourself that it is old stuff. Yet, we wonder how your windows look at eight in the morning. We wonder whether they are bare or there! We wonder if you are saying that you can't trim your windows early because your stuff isn't out of the oven yet. We wonder if you feel that it isn't worth the effort to trim windows before noon because nobody passes your store before 10 a.m.—and as we wonder, we keep on producing display ideas and showcards just because we know that our progressive managers are everlastingly looking for new stuff—new thoughts—new displays—anything and everything that will help them to make their windows more attractive.

We know that the live Federal managers have a window trim of some sort at 8 a.m., even if it is just a few cards placed in the window—anything to give the appearance that they are still in business—anything to attract the attention of the average person who passes the store from eight until noon.

And, as you read this message, do you wonder why the stores that always have attractive windows usually do the most business?

Has this straight-from-the-shoulder message convinced you that, of the five senses, the sense of sight can produce more dollars than all the others? We wonder!

It should be noted that the above bulletin first proves the value of window displays in making sales, then applies it to the

particular problems of the chain, and finally brings the matter down to the store manager himself, telling him how to use this bulletin to increase his sales. It is well written and neither too

#706	GROCERY & MEAT MANAGERS' NOTICE	10/28/26 240
Next week we are going to feature ALMAR BUTTER. 30% increase is the goal. If we are to succeed it means that every store must increase ALMAR BUTTER sales next week 30%. If you are to be able to sell your allotment, you must increase your order accordingly. We want each Manager to keep account of the BUTTER he actually sells next week and give report to your Superintendent on Monday, November 8th. We will advertise ALMAR BUTTER both in Monday's and Thursday's Evening Bulletin. We will also give : a large space to BUTTER in the Northwest Record on Monday and Thursday. We will also have special signs for use on both Grocery and Meat Counters because next week we want the Meat Departments to co-operate with the Grocery Departments in putting over ALMAR BUTTER week. Every Manager will be responsible for the accounting of BUTTER sold by the Meat Manager. This can be done by making out the regular transfer slip. When the sale is over any Butter on hand in the Meat Department is to be transferred back to the Grocery Department immediately. This arrangement is for one week only. This is the time of the year to make new BUTTER customers. The children are now in school. Pie season is in full blast. Hot cakes are good for the system these snappy mornings. Mother bakes hot waffles or tea biscuits for the family once or twice a week. All these things mean more BUTTER and Eggs. No better BUTTER is produced anywhere than ALMAR BUTTER. It is produced in ALMAR Creameries under strict sanitary conditions, shipped to us in specially constructed refrigeration cars, printed in our sanitary Butter room under strict Government supervision and is sent direct to the stores. When you hand a pound of ALMAR Butter to a customer, you are giving her the best BUTTER that it is possible to produce. The color is a light straw, the salt content small, only three pounds of salt being used to the 100 pounds of sweet BUTTER. The texture is smooth and the flavor is as of pure sweet cream because that is just what it is made of -- no sour or mixed cream being used in its manufacture. Our Butter business is going ahead nicely but we know that there are some people who have not tasted the goodness of ALMAR BUTTER and to help you reach these customers, we are going to give you a very special price for BUTTER week. Remember; boys, there is no substitute for ALMAR BUTTER. WHE CONFIRMATION * ALMAR BUTTER 57¢ lb. JFY We now have in stock AMERICAN BEAUTY PUREE to sell at 8¢ per can. This is one of the items entered in the Record Contest and as there has been quite a demand for some of these items, we decided to stock this brand as well as ALMAR. AMERICAN BEAUTY PUREE is not a new item. It has been a very popular seller in the independent stores. If you have any customers that are working on this contest, you can now add the above to the list of items that they want and include with your next order. WCA ALMAR STORES COMPANY		

Fig. 55.

dignified nor too familiar. Such bulletins as this should prove helpful in the maintenance of morale.

Figure 55 shows a more prosaic but useful form of bulletin used by the Almar grocery chain, combining instructions for display and suggestions for sales.

For the small chain, the bulletin may be used in place of the house magazine. For example, Thing's Shoe Stores, with 22 stores in the state of New York, employ 100 clerks, which is not

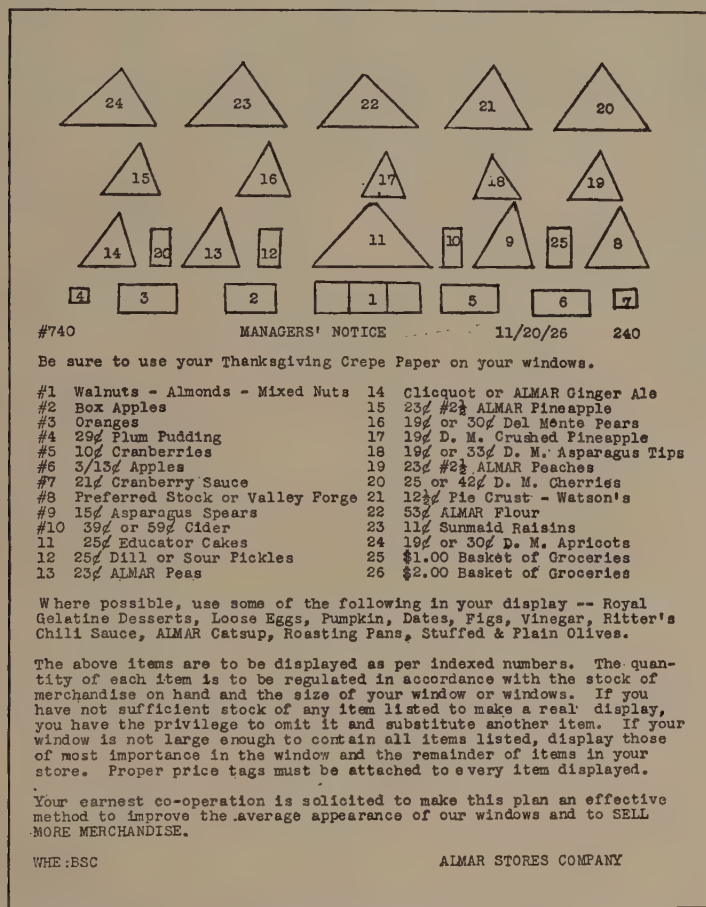


FIG. 55.—(Continued.)

a large enough personnel to warrant the publication of an elaborate house magazine. The chain does, however, issue a daily bulletin service, which is utilized for a number of different purposes. While information is the chief content—information as to merchandise, arrangement of stock, display in windows,

exchange of stock, and contests—these bulletins also contain instructions for managers and salesmen, and often include short papers dealing with the attitude and efficiency of the sales force.

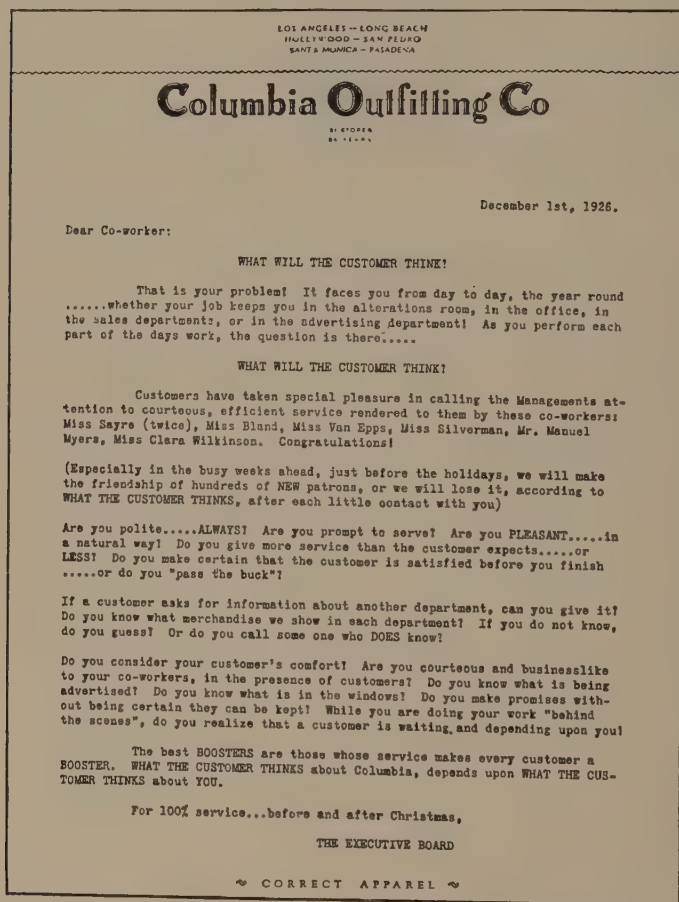


FIG. 56.—One of the letters now used by the Columbia Outfitting Co. as a substitute for the house-organ it formerly published.

One feature of the bulletin which many other chains could copy with profit consists in mailing out queries to all managers as to how a certain type of stock is moving, as to what they thought of the effectiveness of a given sales idea, or as to any other thing on

which a consensus of opinion would be valuable. The summary of answers is published in the bulletin. In this way, the whole organization is able to see what the general opinion is as to any given subject.

The line between the bulletin and the house magazine is more or less a formal distinction. The bulletin appears more frequently, is less permanent, is read at once, aims at one particular point rather than several, is prompt and effective. The house magazine, on the other hand, normally appears at less-frequent intervals, is more formal in make-up, and also more lasting—that is, it is kept longer.

The Columbia Outfitting Co., operating 31 credit outfitting stores in and about Los Angeles, decided to give up its house organ in favor of a weekly bulletin letter, such as is illustrated in Fig. 56. The bulletin is mailed to the employee's home where he will have more leisure in which to study it. The company believes that a small quantity of information at frequent intervals is more easily absorbed, while the multiplicity of purpose in the house magazine defeats its own purpose of welding the organization together and making it more effective.¹

The House Magazine.—There are various types of publications all known under the generic name of house magazine or house organ. They are all alike, however, in being published for employee consumption. The following types may be distinguished:

1. *A Publication Devoted Solely to Spreading Ideas and Suggestions from Company to Personnel.*—The Owl Drug Company's publication *Vogpex* comes under this heading. *Vogpex* is a name derived from the first letters of the words "volume," "gross profit," and "expense." These issues are devoted to spreading ideas on the business. An opportunity is given to everyone with a successful idea, tried and proved in practice, to describe it to other stores. Each story carried actual gross margin figures so that salespeople will know what to work on. In addition, the company publishes sales statistics of various kinds. For example, if government statistics show that cos-

¹ For further information, see article by E. J. Wood, advertising manager of Columbia Outfitting Company, Los Angeles, Cal., *Chain Store Age*, January, 1927.

metics are selling in particularly large volume, this news is included, the point being that each store in the chain should be getting its share of this increased business.

2. *A Publication Made Up outside the Chain Organization, Usually Syndicated.*—The disadvantage of such a publication is that the personal touch, at least a great share of it, is naturally lost.

3. *The True Company Magazine, Containing News of the Company, of the Personnel, Ideas, Suggestions, Photographs, and Other Material Connected with the Chain or Its Employees.*—Where personal contact cannot be secured in other ways, and where the chain is large enough to warrant the expense, the house organ or magazine is a logical method of maintaining morale.

In editing the house organ it is important that the policy of the house and the policy of the publication agree—the two must be identical. It should also be remembered that the average person objects to “ginger” and “pep” literature. He would much prefer a simple, lucid explanation of the facts and how they apply to him. All sermonizing and moralizing should be done carefully. A busy salesman has no time to read sermons. But he will read articles about his business, about himself, and about the other members of the personnel, because he is interested.

The chain should decide in advance as to the exact purpose of the house magazine. If, for example, its sole purpose is educational, then the weekly bulletin method would probably be preferable. If, however, it aims to build up an *esprit de corps* throughout the organization by including news about the personnel and the organization, then the magazine form, which permits publication of photographs and better make-up, is to be used.

There will be several problems to decide at the beginning. One is in regard to size. The best advice that can be given is to make the magazine no larger than can be filled with material that will be read. As to frequency of issue, the same thing applies. It should be published no more frequently than it can be filled. Care should be taken, however, to have publication dates come at regular intervals. Under normal conditions, magazines should be published at least once a month.

The most important question is as to the contents. A good thing to remember is that a house magazine is read by the employees and should contain nothing that will not interest them and, more important still, interest them in the specialized line of endeavor in which they are engaged. Jokes and clipped matter from other periodicals may interest, but these employees read the newspapers anyhow. The house organ should aim at its own field solely.

News will always serve to make the magazine read. News about the personnel, photographs of managers, of stores, stories of unusual happenings that occur in connection with chain or organization, and, of course, news of contests—all these should be included.

Announcements from the organization as to plans or changes in policy may always be included in the category of news, because they affect vitally all men in the organization. Suggestions as to better management and ideas for making greater profits can normally be included in house magazines, provided they do not take up too much space. After all, the main purpose of the house magazine is to get the team spirit in the organization. As Fred B. Barton says about his own paper, the *Acme Special*:

We try to have this paper hold the Acme family together in a unit, to keep up the family feeling, even though Bill Jones at Acme 6 may only see Tom Smith at Acme 56 once a year. Also we mix in a little educational and inspirational matter now and then. We believe that the paper has some effect in making men satisfied with their jobs and encouraging them to grow into better positions and to look ahead to a real future with our company.

Contests.—Many chains have found that a well-planned and executed contest is better for the morale of the organization than almost any other expedient. Everybody is on his or her tiptoes, and sales usually pick up. From the chain's point of view it is like the man who advertised he would give \$5 for the best bushel of potatoes he received by a certain date, and in a few days was sent more than a hundred bushels of prize potatoes. The chain pays the winners and receives in return the united efforts of the sales personnel. A definite goal is in view, and each member has an opportunity to show what he or she can do. A number of things should be kept in mind in arranging contests:

1. The rewards given should be worth the efforts of competition. Nobody is going to exert special effort unless something is to be obtained thereby.

2. If possible, there should be a certain honor connected with winning the prize, such as having it given out by the head of the concern. This tends also to make the contest more personal.

3. Contests should be arranged so that each employee has an equal chance of winning. In this way, undue disappointment on the part of those who have failed to win prizes will be avoided.

4. Contests should not be carried on over too long a period, since interest must be kept up constantly, and the longer the contest lasts, the more difficult this becomes.

5. Contests should be changed from time to time. New ideas should be thought up for new contests.

6. The contest should be given the greatest publicity possible. If no house magazine is published, bulletins should be sent out, and if the contest lasts long enough, special bulletins giving status of contestants should be issued.

There are a great number of possible ideas for contests. One of the most common plans, of course, is to give cash prizes to store making the most sales, to be divided according to a certain ratio among employees of those stores. The contest may stipulate either that the store which makes the most sales wins, or that the store which shows the greatest increase in sales over the previous month wins.

The Washington Shirt Company, operating 18 men's furnishing stores, carried on a contest to increase the number of items sold on one sales check.¹ No check showing one item counted. Points were scored on the number of items over one which showed on the checks, two or more of one item counting equally with different items.

	POINTS
Two items on a check scored a credit of.....	2
Three items on a check scored a credit of.....	5
Four items on a check scored a credit of.....	10
Five items on a check scored a credit of.....	15
Six to fifteen items on a check scored a credit of.....	25
Fifteen or more items on a check scored a credit of.....	50

¹ See *Chain Store Age*, March, 1927.

[illegible]

The Waldorf System, Inc., follows a policy of showing managers how they compare with each other month by month. Rules are so arranged that each and every store may reach the top. During the four years this contest has been running both small

and large stores have been leaders, and each year a different store has been in the lead. The ranking chart is shown in Fig. 57. All stores are first ranked according to ratio of gross profit to sales. Gross profit is figured after deducting operating costs within direct control of manager, but before deducting rent and other fixed charges in hands of executives. Then operating costs within control of manager are graded either as Excellent, Good, Fair, or Bad. If cost of labor, for example, averages 20 per cent to sales for the entire system, then all stores having percentage at 20 or under are graded as Excellent. A labor ratio greater than 24 per cent brings a grading of Bad. To get an Excellent under gross profit a store must have a gross profit ratio large enough to cover all expense and twice the dividend requirements.

To give recognition to the winners an honorary society was formed by the president of the Company, known as the Scarab Club. At the annual Store Managers' Banquet, he receives a Scarab stick pin. As there are six operating divisions, six managers are eligible each year, and to the highest of these six an engraved gold watch is also presented.

Rewards.—Rewards are closely allied with contests, the difference being that in the latter case there is open competition, and in the former the result is, as a rule, unsolicited. For example, when an employee of the United Cigar Stores organization performed any service which brought him to the attention of the main office, Mr. Whelan would write him a personal letter of commendation and thanks. Inasmuch as contests and rewards must have publicity in order to be effectual, the letter was mailed in a flaring red envelope, so that everyone in the office or store could not help knowing it had been received and the nature of its contents. To make matters doubly certain, the reward was announced in the monthly bulletin.

Most chains give Christmas presents, at which time special merit may be rewarded. Frequently, the basis of the amount of a Christmas present is the length of service, thus placing a premium on steady employment.

All bonuses are in the nature of a reward for work and attention above the average, but reward is limited to recognition of acts on the part of the employees beyond the mere

duty of routine selling and managing. Recognizing such acts is an excellent method of acquiring the goodwill of the employees.

Enforcing Morale and Results.—There are two methods of checking up the morale of a chain organization. The first is to employ a corps of inspectors who will personally see that the policies and the plans of the central office are carried out. The second is to allow the personnel to evolve its own morale under the inspiration and educational leadership of the head office. By the second method the responsibility is, as far as possible, shifted from the chain to the employees.

But, however spontaneous the maintenance of morale may become, the central office of the chain must exercise some supervision. In large organizations this can be done only through a special department, which will be in part the personnel department, although it may go under a variety of names. In smaller chains, this supervision must be exercised by some other department, probably the sales department.

Good morale manifests itself in the three following ways:

1. Effective discipline, cheerfully submitted to.
2. Spirit of cooperation.
3. Increased profits to personnel and company.

The first two are necessary to produce the last. Other things being equal, if the first two can be secured, the last will follow as a natural corollary.

Discipline.—What does discipline mean to a chain organization? It does not necessarily mean that the assistant must say "Mister" when addressing the manager, as one chain vainly attempted to enforce. It is something much broader and more important. In a way, every branch store in the chain and every clerk in the store is representative of every other store and clerk in the chain. If one manager allows his store to become dirty and remain so, the trouble is not confined to his store or to him alone, but all the other stores doing business under the same name suffer also. Thus, discipline in a chain organization means the uniform observance of policies laid down by the central office as wise and proper.

If it is decided that stores should open at eight o'clock, there should be no exceptions without excellent reason. It is easy

to see that a customer who is used to buying from one store in the chain which opens at eight o'clock would not be pleased on going to another store in the same chain to find that it opens at nine. If a clerk in one store of the chain sends away a disgruntled customer, that customer will hesitate to go to another store in the chain, no matter how amiable its clerks may be.

A high morale enforces discipline because the clerks can be brought to see that discipline must be enforced for the good of everyone concerned. Rules and regulations become but printed words without effect unless there is some method of enforcing them. The best method yet found lies in the interest of the employee to obey them without constant inspection. The methods of building up morale, previously described, should have, therefore, as one of their first effects, the maintenance of discipline.

Teamwork.—Teamwork is an essential part of chain store organization, especially since the organization must of necessity be so loosely joined. Therefore, another beneficial result of maintaining a high morale is a spirit of cooperation, not possible to define in so many words, but possible to understand. A chain of stores is a sensitive mechanism and only the most careful attention to routine makes it possible for it to function well and efficiently. Thus, cooperation between all links of the personnel is a fundamental requisite.

A chain which does not possess the goodwill of its employees may be counted a failure. No matter how methodical and machine-like its methods of supervision, it cannot substitute methods for men. A chain store organization must build up a structure of personalities, not one of mere store fronts.

A high morale creates interest in the work because it points out where the employee may better himself and get in line for rapid promotion. The best system of morale is one which points out where the individual himself can benefit. The fundamental idea is to work together for the benefit of each one.

Conclusions.—The question of morale lies between the employer and the worker. Although it is to the ultimate benefit of both parties, the incentive and the control must be furnished by the management. The employee must in a variety of ways be made to feel:

1. That the enterprise is his.
2. That he is fairly treated.
3. That he has a just share in the proceeds.
4. That he has a genuine interest in the purpose of the concern.
5. That he is interested in the work itself.

The composite effect will show itself in an excellent *esprit de corps*. This morale, in turn, will cause greater sales effort, as well as better coordinated sales effort. In fact, for the loosely jointed chain organization, the practical alternatives are between creating and maintaining good morale and suffering under the hardship of the indifference and even hostility of the employees.

CHAPTER XVIII

REMUNERATION AND PROMOTION

Of all problems relating to personnel, those of remuneration and promotion are most important. On the successful solution of these two questions depends the caliber and morale of the organization, as well as the low percentage of labor turnover which is regarded as so desirable. Each chain must devise a system of remuneration which will reward employees commensurately with their efforts, and at the same time hold out the hope of promotion and still greater rewards. It is surprising that so many successful methods have been evolved. Even in a single field, such as grocery chains, there is wide differentiation in methods used. The following generalization may be made, however:

1. The salespeople are generally paid flat rates, although in many cases even the salespeople are spurred on to greater endeavor by some system of extra recompense for efficient sales service.

2. Store managers almost always receive some remuneration beyond a mere fixed weekly or monthly salary, although methods of awarding this extra remuneration are rarely the same. It may take the form of a commission on gross sales, or on profits; it may come in the shape of a bonus based on items other than sales, a profit-sharing scheme, or perhaps a stock-participation plan.

3. The executives in practically every case receive fairly large recompense, at least as much as they would earn for themselves as independent merchants and, in most instances, much higher. The size of the remuneration is often conditioned on the profits made by the chain during the year.

Among the many methods in use, it is impossible to pick out any one at the best. Each method hereafter described is working out well in practice for some chain, and each has certain aspects which make it particularly suited to its user or users.¹

¹ See discussion of this matter in *Chain Store Age*, December, 1926.

Remunerating Salespeople.—In the very first instance, it is necessary to distinguish between a clerk with no prospects, or at least very faint prospects, of advancement, and a sales clerk in direct line for a local managership. Some chains find it necessary to employ a great many salespeople, mostly girls, who merely work for the salary they obtain. Other chains find it possible to make the salesmen they employ constantly interested in their work by the knowledge that as soon as they have made good they will be promoted.

The second point to note is the authority of the store manager over his selling personnel. Ordinarily, the number of clerks employed in a chain store is small compared with other retail stores, because of efficient management and more specialized stock. Stores may be so small that the manager can run them alone with occasional assistance. The five-and-ten-cent stores are by far the largest employers of cheap sales help, and have found the labor problem particularly perplexing.

Local managers are ordinarily allowed to hire their own help, provided the payroll is kept within certain percentage limits in relation to sales. This percentage figure may come as low as 8 per cent in the larger chains and as high as 14 per cent in the smaller chains. The payroll, by means of hiring extra workers for Saturdays and holiday seasons, is kept at a fairly constant figure, a deficit during the slack season being made up by a surplus at Christmas.

The old method which five-and-ten-cent store chains used in remunerating sales girls was to pay what the labor market required at the moment, and no more. This, of course, brought with it an exceedingly high labor turnover. The five-and-ten-cent store was the last resort when out of work. Naturally, this caused a low degree of efficiency in the sales force.

Conditions are now changing. The progressive chains have come to see that even the policy of "letting the goods sell themselves" can be overdone. In the past, managers have often complained of difficulty in keeping within the percentage limit allowed them for labor. It has been hard to convince the local managers that it pays to teach the clerks better selling methods. The worst temptation the chain manager has to face is the availability of cheap help. One grocery chain found it possible

to get men or boys to work from two until six and all day Saturday for \$5 a week. An assistant of this sort sweeps the floor, washes the windows, packs away the supplies, and generally reduces store overhead.

But facts and statistics have been tabulated which seem to indicate that higher-paid clerks, even in five-and-ten-cent stores, are a good investment. One chain in particular has conducted a regular campaign to educate its managers in regard to the benefits of better-paid clerks. Following is a copy of a notice sent to managers:

DECREASING SALARY PER CENT BY INCREASING EFFICIENCY

The average salary paid salespeople at Store No. X the first three months last year was \$15.92 per week. The average number of salespeople employed was 111.

The average salary for the same period this year is \$19.29. Number employed 103.

Salaries for last March, averaged $10\frac{1}{2}$ per cent, and for this March, $8\frac{1}{2}$ per cent. Is this not conclusive evidence that paying good salaries to efficient salespeople is productive of better results than cutting salaries and employing second-grade help?

Study your own store on the above basis. It should develop something of real interest.

Efficient sales service cannot be obtained without the cooperation of the central organization and the local managers. It takes time, of course, to effect such a change as the method of paying salespeople. But the trend of the time is in favor of better and more scientific handling of the personnel, and this development in the five-and-ten-cent store field is directly in line.

Wage Rates for Clerks.—Sales clerks are ordinarily paid a flat rate. Occasionally, there is a wage plus a commission on sales, or a straight commission with no wage guaranteed. It has been found almost universally true that the flat rate gives the poorest returns, as far as sales efforts on the part of the clerks are concerned. Wherever commissions are given, or bonuses for increased sales, the results are almost immediately apparent in the attitude of the clerk and the volume of sales. Some shoe stores follow a plan by which the clerk is given a bonus only on goods which the company desires to sell. That is, on staple lines

there is no bonus, because little selling effort is required. On seasonal and special goods there is a large bonus, because the selling effort is correspondingly high.

Generally speaking, the more sales effort there is required to sell the goods the higher salary must be paid to the sales clerk. In many chains, salaries can be kept low because of the prospect for advancement held out to the clerks. In the chain drug stores, a commission is usually paid clerks for selling private brands, or it may be possible for the manufacturer of a nationally advertised article to make some arrangement by which the clerks are given a bonus on what they sell of his goods.

Returning again to the five-and-ten-cent stores, it has been stated that, in the ordinary five-and-ten-cent store, salesmanship is at a low premium. The tendency at most counters is to make the selling almost automatic. The goods are carefully displayed where they can be examined by the customers and the prices are clearly marked. Some stores are beginning to try out a plan of self-service and the only thing demanded of the salesgirl is wrapping and making small change. At other counters, however, it is still necessary to display goods, to answer questions, and to persuade customers that the goods on hand are exactly those desired. Ribbons, stockings, hats, and hat trimmings, underclothes and similar articles cannot approach maximum sales without the personal contact between the saleswoman and the customer. It is interesting that in three stores the only salesgirls on a commission basis were those at the music counters, and the difference between the attitude towards customers of these girls with their obvious desire to sell goods, and the attitude of the general salesgirl, who seemed to care little or not at all, was apparent in every case.

Approximately 84 per cent of the workers in five-and-ten-cent stores belong to the selling force, all women, with few exceptions. In the Department of Labor survey, exactly one-half of the full-time women workers received less than \$13.49 a week. Two-thirds of them received less than \$15 a week. Ordinarily, the smaller the city the lower the wage paid, and this holds true as a rule in all chain stores. An assistant or helper in a city store is sure to obtain a larger wage than is paid for the same service in a country store.

Remuneration for Store Managers.—There are so many systems of remuneration and they shade into each other so gradually that it is extremely difficult to make any arbitrary classification. Each system, however, has as its basis a certain base salary or drawing account for the manager. Each is designed to arouse incentive, to work impartially, to be simple in operation, and to return a profit to the store as well as to satisfy the ambitions of managers.

Four major differences in methods of payment may be noted:

1. *Straight Salary.*—Where this system is employed, there are usually opportunities offered whereby the manager can increase his actual remuneration, such as P.M.'s (or premiums) on certain goods, prize contests, or some other method of making the theoretically rigid wage scale conform to actual ability.

2. *Commission.*—Many chains pay a flat salary or give a drawing account, while the major part of the employee's salary depends upon either (a) a percentage on gross sales, or (b) a percentage on gross or net profits, or (c) a combination of the two. There are many possible modifications in this system, such as in credit clothing chains, where the commission is paid only on the amount of collections.

3. *Bonus.*—The advantage of the bonus system is that it allows the remuneration to be based on other factors than actual sales volume. Many bonuses are given, of course, for attainment of a certain sales volume, but it is also possible to figure them on efficiency in store keeping, or, as in the case of the Owl Drug Company, on controllable net. Bonuses are sometimes given on the basis of length of service in the chain.

4. *Profit Sharing.*—This form of remuneration is particularly adapted to the higher executives, although some chains have worked out systems whereby the store managers themselves share in the profits of the chain as a whole. Under profit sharing should come the practice of selling stock in the chain to employees at low prices.

Straight Salary.—The system of flat weekly payments was the time-honored retail method of remuneration prior to the coming of the chain stores. Its advantages are simplicity, and certainty of the amount of the wage. It works well where the employer can be on hand personally to adjust the wage according

to the ability of the employee. In the chain store, this becomes obviously difficult, if not impossible, and it was necessary, therefore, to devise some method whereby the capacity of employees might be better measured. Where chains pay flat salaries, there is usually some scheme by which the more enterprising managers may increase their earnings.

The United Cigar Stores Company, which at one time regulated its remuneration to managers according to their sales has abandoned this system for the straight salary basis. It was found that the commission system created a great many situations where the actual sales of the store did not reflect the ability of the manager, and he was constantly penalized for conditions beyond his control. In addition to the salary, there is a monthly bonus for accurate inventory, which is somewhat over \$100 a year for those stores that fulfil requirements. Further than this, there is the stock-participation plan which allows an employee to buy stock for half the price that it sells for on the market. Payment is made by taking small sums from the weekly salary.

Many grocery chains use prize contests as a means of rewarding extra effort or ability on the part of managers. In the drug-chain field, where the straight salary system is frequent, it is customary in many cases to pay premiums on the chain's own branded goods, or on goods which carry a specially long profit.

The only way of determining whether the salary or the extra remuneration is the most important item in the manager's compensation is to see how large this extra remuneration is. For example, in a certain shoe chain the manager's salary is based on the size and importance of the store plus the manager's own experience, and ranges from \$40 to \$125 a week. In addition there is a bonus of $2\frac{1}{2}$ per cent on the excess of sales of the current year over the previous year's volume. Obviously, the salary is the principal part of the remuneration.

Commission on Sales.—Commissions may be paid on all sales made by the manager or it may be paid on all sales above a certain quota. The great criticism of the commission on sales plan is that it emphasizes volume of sales rather than net profits. A grocery store manager may build up a large volume of sales

on items such as sugar and potatoes, on which the chain itself will make little profit.

The flat salary plus a commission on gross sales is the customary method of payment in the chain grocery field. The salary ranges from \$20 to \$35 with rare cases of as much as \$50 a week, with a percentage on gross sales from one-half of 1 per cent to 2 per cent. In many chains it is customary to start managers at \$25 a week, plus 1 per cent on gross, and then advance the salary \$1 at a time until \$30 has been reached. In the East both wages and percentages are higher than in the rest of the country. One chain pays \$28 a week plus a commission of $2\frac{1}{2}$ per cent.

The Cash Food Stores, centering in Corning, N. Y., has a somewhat more elaborate system:¹ For the first two months the manager's salary is \$20 per week and 2 per cent on sales over \$300 a week. During this time he is given a clerk allowance of 3 per cent on sales from \$400 to \$500 a week, and 4 per cent on sales over \$500 a week. If, after two months, the store shows the required percentage of profit, the wage is raised to \$25. After four more months, the wage is raised to \$28 a week with an allowance of 2 per cent on sales over \$300. Clerk allowance is raised to 5 per cent on sales over \$500 a week. The chain safeguards itself by demanding a certain amount of net profit: On sales of \$400 a week net profit of 1 per cent is required; on \$400 to \$700, 2 per cent; \$700 and over, 3 per cent.

Further than this, store managers are given a share in the profits of their individual stores. After one year, the managers get 25 per cent of profits over the required amount. This is raised to 35 per cent the second year, and after the third year is increased to 50 per cent.

The Piggly Wiggly Company's method of paying its employees is interesting. One of its stores employs ordinarily from two to three men, with five men in the big stores. All employees receive regular salaries. In each store there is a salary allowance of 3 per cent on gross sales of \$2,000 per week and $1\frac{1}{2}$ per cent on everything over that. Out of the percentage allowance, the salaries must first be paid and then the remainder is distributed equally among the employees.

¹ See *Chain Store Age*, p. 40, March, 1927.

For example, if one of their stores did a business of \$4,000 in one week, the amount available for salaries would be \$90, that is, 3 per cent on the first \$2,000 and $1\frac{1}{2}$ per cent on the last \$2,000. If there were three employees, one receiving \$30, the second \$25 and the third \$20 a week, the payroll would be \$75 a week, leaving \$15 to be divided, or \$5 for each employee.

A fairly large cash-and-carry grocery chain gives all its men a salary and one-half of 1 per cent of the gross sales in their stores. Previously the men had been given a bonus at Christmas, but this policy was abandoned in favor of the per cent on sales, paid quarterly. The manager can see with his own eyes just what he is making at any time.

One of the officials of this chain says:

We don't underpay our clerks. It isn't safe. They're handling our money, and if we don't give them enough to live on, it practically forces them to be dishonest. We have very little trouble with dishonesty. Also, our labor turnover is small. Some of our managers have worked for us from 10 to 15 years.

In one chain shoe store, a basic salary is paid ranging up to \$60 a week, and in addition 10 cents is paid for every pair of shoes sold, and a 10 per cent commission on hosiery and findings. The manager, however, must pay his assistants out of his earnings.

Payment of managers in the National Shirt Shops is based on a salary, commission, and bonus. The commission is the most important factor in the plan. It is given on the basis of a sliding scale. It starts at 8 per cent of the weekly sales volume, and decreases as sales rise until it is only 4 per cent in the end. A shop doing \$2,000 a week receives \$160 on the 8 per cent basis. If it is doing \$5,000 a week, the commission rate is 5 per cent, or \$250. This weekly commission is distributed among the personnel, the manager getting the larger proportion. In a two-man shop, it is split 60-40; in a three man shop 45-35-25; in a four man shop 40-25-20-15. Only one-half the commission is paid at the end of the month, the balance being paid after six months, to protect the company against shortages and to encourage thrift. The bonuses are really forms of contests, such as prize money for the best showing on inventory, or for exceeding a certain sales quota.

Commission on Basis of Profits.—In a number of chains, the remuneration is based on a percentage of either gross or net profits. Many stores, in order to correct the faults of the pure commission system, made the commission on gross sales dependent upon the net profit, as described in the previous section. One store, which used to make a definite rule not to pay more than \$50 flat salary plus a percentage of net profits, found that this was not enough to attract the best talent, and that a \$75 or \$100 man would do a great deal more business in the same store than the man of \$50 caliber.

In the clothing chain field, it is customary to pay a percentage of net profits plus a straight salary. One of the well-established chains pays the following basic salaries:

SALES		SALARY
Less than	\$ 100,000.....	\$2,000
Between 100,000 and	150,000.....	3,000
Between 150,000 and	200,000.....	3,500
Between 200,000 and	300,000.....	4,000
Between 300,000 and	400,000.....	4,500
Between 400,000 and	500,000.....	5,000
Between 500,000 and	600,000.....	5,500
Between 600,000 and	700,000.....	6,000
Between 700,000 and	800,000.....	6,500
Between 800,000 and	900,000.....	7,000
Between 900,000 and	1,000,000.....	7,500

In addition, 10 per cent of the net profits is paid to the manager, and when net profits equal or exceed 10 per cent of the total sales, this share is raised to 15 per cent.

The salary plus percentage of net is probably the most common method of remunerating managers in the five-cent to one-dollar field. One chain pays a salary ranging from \$175 to \$200 a month, plus 10 per cent of the net profits.

The so-called "controllable-net" plan of the Owl Drug Company has aroused much interest. *Controllable net* means the gross profits of the store, minus operating expenses more or less within the control of the manager, such as lighting, water, store supplies, store help, and inventory shortages. He is supposed to control his gross profits by pushing the articles which show him the best margin, and to keep close watch of his expenses which may be reduced by his care. The straight salary ranges

between \$50 and \$60 a week. What the manager can make, taking figures in one store for an example, are as follows (figures are for a four-month period—the usual inventory period):

IF CONTROLLABLE NET IS BETWEEN	MANAGER'S SHARE WILL BE
\$32,000 and \$33,000.....	\$ 100
33,000 and 34,000.....	200
34,000 and 35,000.....	250
35,000 and 36,000.....	300
36,000 and 37,000.....	450
37,000 and 38,000.....	600
38,000 and 39,000.....	750
39,000 and 40,000.....	900
Over \$40,000.....	1,000

Several drug chains are following the general idea of the Owl Drug Company.

The Louis K. Liggett Company, in addition to the straight salary, pays a share in the increase of the net profits of the individual store, as compared with those of the previous year. In addition there are cash-prize contests.

Bonus Plans of Remuneration.—Bonus plans are legion. One of the commonest forms is to pay a cash bonus whenever a given quota for a store or district has been attained. This is often divided between the personnel of the store, the manager receiving, of course, the largest share.

One chain of medium size in the drug field, paying between \$225 and \$310 a month, gives a bonus to both the manager and the assistant manager who have the best record on the following ten points:

1. Percentage of increase of volume over previous year.
2. Physical appearance of store.
3. Proper handling of detail work.
4. Reducing cash shortages.
5. Eliminating tardiness.
6. Proper care of stock.
7. Proper soda fountain control.
8. Proper handling of credits and returned merchandise.
9. Contest results.
10. Judgment in running the store.

In addition a further bonus is paid for length of service, consisting of one week's salary plus \$4 for each year of service. Only managers who have been five years or more with the company receive this additional bonus. Special prizes are given in addition. Managers in this chain make between \$3,120 to \$4,400.

Many chains make their bonuses dependent upon the expenditures of the stores. If expenses are too high, no bonus is paid. Basing the bonus on some form of the point system tends to keep store managers on the alert, not only in pushing sales but in keeping the stock and the store in first-class condition.

Profit Sharing.—Ordinarily, the compensation of executives above the rank of store manager is paid out of the profits of their districts or from the profits of the chain as a whole.

To take a specific example, the Woolworth chain pays cash salaries to the founders, the stenographers, and the clerks. Everybody else gets paid on the basis of yearly earnings. The officials in the head office at New York are paid on the basis of earnings made by the entire organization. The district manager of each of the 11 districts is paid on the basis of what his district earns. The manager and the assistant manager take a certain percentage of what their particular store earns. Each man gets his full share of profits. Every employee receives a cash bonus after being with the company for one year, and this is increased by the same amount each year for five years. If a girl leaves to be married after she has been with the company three years she is given a cash wedding present.

In some chains, superintendents are given flexible bonuses according to the management's estimate of their ability, rather than any fixed percentage of profits, because conditions may vary in the different districts enough to make a percentage of profits unfair.

When employees are allowed to buy stock in the chain, the number of shares is usually graded. In the case of the United Cigar Stores Company, clerks may buy 10, managers 15, and district managers from 25 to 35 shares. If a man who has bought stock leaves the company, however, he receives for his stock only what he paid plus 4 per cent in interest.

The Penney Plan.—Although the well-known Penney plan of partnership has been abandoned, due to the growth of the chain,

a description of its original methods is here included, partly because of its historical value, and partly because these methods may prove valuable to smaller chains. The diagram in Fig. 58 illustrates the plan graphically. The following account is taken from the *Dry Goods Economist* of May 5, 1920:

The Penney plan may be summarized by calling it an original principle of organization in management, founded upon a real belief in the

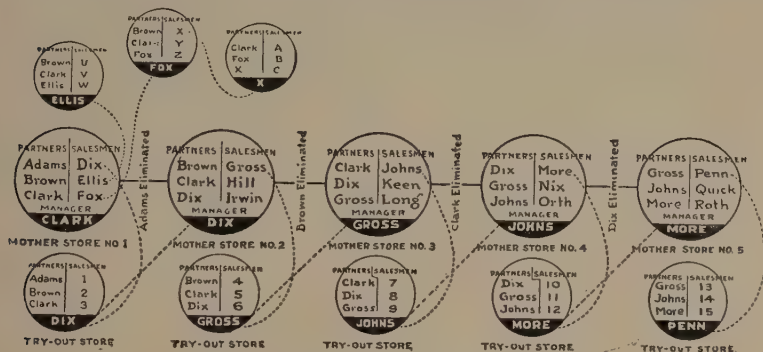


FIG. 58.—Explanation of above diagram.

Each established or "mother" Store is supposed, out of its profits, to open a "try-out" Store, in which its salesmen are tested for managerial ability. Having proved such ability (the Board of Directors pass on this), the salesman is sold a one-third interest in another under his own management, which becomes his "mother" Store. For example: The Head Salesman Dix in "mother" Store No. 1 has worked his way up to first man. The Store in which he works having produced enough surplus to start another Store, Dix is placed in charge, where he develops his own organization (salesmen 1, 2 and 3), training them as he has been trained. Having made good as a Manager of this "try-out" Store, Dix is now sold a one-third interest in Store No. 2 (his "mother" Store) and made its Manager. Here he again teaches and coaches his associates (Gross, Hill and Irwin), who are in turn placed in charge of other Stores. Dix is a partner in these Stores, as indicated in the chart. In the same manner, Salesmen Ellis and Fox, after proving their fitness in the "try-out" Store of "mother" Store No. 1, are made Managers and partners in other Stores, as indicated. The senior partner is eliminated in each new Store started. This is necessary to provide for the other men who are constantly being made partners. A man is not limited to partnerships in any definite number of Stores, however, but becomes a partner in all Stores founded by his "mother" Store.

inherent honesty of human nature and the idea that nothing stimulates a man like the knowledge that hard, intelligent work will bring a certain and substantial reward. This plan results in an intensive cooperation in the passing on of a man's knowledge and qualities of leadership to his helpers in the business, and an endless chain of the development of the individual.

The plan involves the stimulation of the growth of each new store until its owners are able to start up another, which in turn will send out other branches. The stock of the parent company is classified by stores and a separate set of books is kept for each store.

Mr. Penney owns all the stock of Store No. 1. In Store No. 2 he owns two-thirds and the manager one-third. In Store No. 3 he has one-third, his partner, the manager of Store No. 2, has one-third and the manager of No. 3 the other one-third. Suppose it is decided that Store No. 2 shall start a new branch, in charge of a man who has shown partnership caliber. Mr. Penney retains one-third interest, the new partner getting the other one-third Mr. Penney held.

This store, No. 4, later starts a fifth store in which it is desired that the manager shall have an interest. Then Mr. Penney, as the senior partner drops out, and takes none of the new stock, so that the stock in that store is held in equal shares by its manager, the manager of Store No. 4, its parent, and the manager of Store No. 3. Mr. Penney, of course, retains his interest in the other four from which he may start branches in which he will have a share.

Mr. Penney is constantly training new men for partnership. The men who are admitted to this partnership pay for their interests out of their earnings. There are stores in the chain in which Mr. Penney holds no stock, there being room for but three partners, but it is not his idea to appropriate all of a good thing. He prefers to have a number of stores in each of which he owns a part interest, rather than a few stores in which he owns all the stock, and, as store after store opens new branches, the number of these part interests increase.

The men in charge of these stores never fear that someone they are training will come up to supplant them. They give these men every encouragement and assistance, for the sooner they develop men able to manage a store the sooner will there be another store in which both will share the profits. In other words, under the Penney plan it is not a matter of starting a store and then looking for a manager. The manager is made first and then a store is made for him to operate.

The common stock is numbered in series according to the number of the store which it represents. The owners of store No. 10 will hold series No. 10 stock. Every time a store is opened a man is advanced to partnership, and five other men, all of partnership caliber, are taken into the company.

The initial salary is small, for a good reason. When a man must make a small salary stretch a long way, he works all the harder to reach the point where he will become a sharer in dividends. And the economy he learns while living on little is as useful in handling the income of a store as of a home.

Promotion.—Promotion is one of the rewards open to employees in the majority of chains. Certain policies are common:

1. A man must start in at the bottom and work up. That is, he must first of all learn to sell goods himself, he must become acquainted with his stock, must find out the customers' likes and dislikes. In the Woolworth organization every man, from the store manager up, begins at the bottom. Virtually everyone in the United Cigar Stores organization has served behind the counter.

Occasionally when a chain is just starting, it must seek managers from sources outside the organization.

2. Higher positions are filled from within the organization. It is a fixed policy in all established chains to fill vacancies from men who have actually trained for those positions. The United Cigar Stores Company at its main office never allows a position to remain vacant for a moment, even during vacations. The man below always takes the place of his superior.

3. Promotion is made on merit alone not because of length of service, influence, or any other reason. Men who do not fit eliminate themselves or are eliminated. No man whose personal views are at variance with the policy of the organization can hope to be promoted.

The United Cigar Stores Company believes that plenty of executive ability is always available. In addition, it recruits the ranks of its buyers from the clerks. In every chain, good clerks are consistently promoted to be managers, and good managers to be supervisors or district managers.

But there is one class in a chain store organization which has little chance for advancement, and this is the girl in the five-and-ten-cent store. Opportunities for her are rare. She may become a bookkeeper, a floor walker, a window dresser, or, in rare cases, an assistant manager, but on the whole she has little to look forward to in the organization, for two reasons, one reacting on the other:

1. The girl employed, at the salary paid, usually has inferior intelligence and possesses little sales talent, that is, she is not especially fitted to make herself invaluable to the organization and to put herself in line for promotion.

2. Few five-and-ten-cent stores have spent any time or money in trying to better the sales talent they have.

But, with this exception, the road to promotion is generally open, and in few other lines of business is it possible for the worker to get a squarer deal from the management.

Promotion by Merit.—In all chains, records of employees should be kept on some basis which will fairly show the individual merits of every man. In a small chain, whoever decides on promotions will probably know the personnel individually, but in larger chains, or chains the links of which are widely scattered, promotion is largely a matter of record, supplemented by occasional personal interviews. A growing chain offers great opportunity for rapid advancement to those who show ability.

The simplest method of rating a manager is by the showing which his store makes. The manager of one chain uses seven factors in rating his managers:

1. Standing in sales.
2. Percentage mark-up.
3. Percentage cost.
4. Percentage merchandise gain.
5. Percentage merchandise loss.
6. Percentage net gain.
7. Percentage net loss.

Figure 59 shows the Manager's Personal Analysis secured from time to time by executives of the Regal Shoe Company. This serves as the basis for advancement and pay. A somewhat similar analysis is used for each salesman under the manager. Figure 60 shows how the salesman's records are kept at headquarters by means of a card system. Figure 61 shows the form sent in by the stores from which the cards are made up.

One of the most careful systems of judging the personnel has been developed by R. H. Fogler, director of personnel, of the W. T. Grant Company.¹ In this company the potential executives are in charge of certain departments in their stores. Each is responsible to his manager ultimately, although he has charge of ordering merchandise, stock control, and mark-up. Frequently he handles the window display for his department. These men are judged on reports from their managers, and on their records. Men are shifted frequently from store to store so that different managers make reports on their work.

¹ See article on "Measuring Men," in *Chain Store Age* for August, 1925.

MANAGER'S PERSONAL ANALYSIS

Store No. _____ Date _____ 19__

Name _____ Length of Service _____

Height _____ Weight _____ Age _____

Classification _____

Total Points Scored _____ Grade _____

M P A -4-

1. Management

a. Organization

1. Discipline
2. Balance
3. Economy
4. Efficiency
5. Morale

b. Store Maintenance

Total Points

Standard	Point Grading
35	
25	
40	
45	
25	
30	
200	

2. Salesmanship

a. Ability to make a Standard Sale
(See Resco Score Card)

b. Ability to sell N. D. shoes

c. " " make double sales

d. " " sell Hosiery

e. " " Findings

f. " " rapidly and thoroughly

g. Judgment in adjusting complaints

h. " " making exchanges

i. " " turnovers

j. Knowledge of and ability to sell Regal Manuf-
turing and Selling Policy

k. Personal call trade

Total Points

Standard	Point Grading
50	
20	
15	
20	
15	
20	
25	
15	
25	
30	
15	
250	

3. Reports and Forms

a. Outgoing

1. Knowledge of methods
2. Promptness in rendering
3. Accuracy in details
4. Neatness in appearance

b. Incoming

1. Comprehension

Total Points

Standard	Point Grading
30	
20	
20	
15	
35	
120	

4. Merchandise

a. Knowledge of

1. Every shoe style
2. " hosiery style
3. " findings item

b. Knowledge of location of

1. Every shoe size
2. " hosiery style
3. " findings item

c. Physical care and supervision of:

1. Store Shoe Stock
2. " Hosiery Stock
3. " Findings Stock
4. Reserve Shoe Stock
5. " Hosiery Stock
6. " Findings Stock
7. Window Shoes
8. " Materials
9. " Trimming
10. Stock Control Board
11. Resco Equipment

Total Points

Standard	Point Grading
25	
20	
15	
20	
10	
10	
15	
10	
5	
10	
5	
5	
10	
5	
5	
180	

5. Personal Characteristics

a. General Appearance Personality

b. Poise

c. Well groomed

1. Clean shaven

2. " linen

3. Shoes polished

4. Clothes pressed

d. Manner of speech

e. Cooperation

f. Confidence

g. Courtesy

h. Patience

i. Judgment

j. Capacity for work

Total Points

Standard	Point Grading
50	
20	
5	
5	
5	
5	
15	
35	
25	
20	
20	
25	
20	
250	

Summary

1. Management

2. Salesmanship

3. Reports and Forms

4. Merchandise

5. Personal Characteristics

Total Points

Standard	Point Grading
200	
230	
130	
150	
230	
1000	

M P A -5-

KEY TO POINT GRADING

	5	10	15	20	25	30	35	40	45	50	60	70	80	90
A—Excellent	5	10	15	20	25	30	35	40	45	50	60	70	80	90
B—Good	4	8	12	16	20	24	28	32	36	40	48	56	64	72
C—Fair	3	6	9	12	15	18	21	24	27	30	36	42	48	54
D—Poor	2	4	6	8	10	12	14	16	18	20	24	28	32	36

Classification

A—500—1000

B—800—900

C—700—800

D—600—700

Examination made by

(Signed) _____

Noted by _____
Personnel Mgr

Sales Manager

FIG. 59.—The Managers Personal Analysis is secured from time to time by executives from headquarters. A similar analysis is provided for the salesmen.

CHAIN STORES

FORM NO 2781 A

INDIVIDUAL SALESMAN'S RECORD

STORE NOS. _____

NAME _____

YEAR _____

PAIRS SOLD

SALES BY P M & COM

SALES WITH ADD ITEMS

NOB & FIND REVENUE

P M S AND COMMS

COST PER PR TO SELL

JAN.

FEB.

MAR.

APR.

MAY

JUNE

JULY

AUG.

SEPT

OCT

NOV

DEC

TOTAL

FORM NO 2781

INDIVIDUAL SALESMAN'S RECORD

STORE NOS _____

MONTH _____ YEAR 192 _____

DAY

PAIRS SOLD

SALES BY P M & COM

SALES WITH ADD ITEMS

NOB & FIND REVENUE

P M S AND COMMS

JAN.

FEB

MAR

APR.

MAY

JUNE

JULY

AUG.

SEPT

OCT

NOV

DEC

TOTAL

TOTAL

COST PER PAIR TO SELL _____ CENTS

FIG. 60.

[illegible]

Fig. 61.—Form sent in by Regal stores to show the performance of individual salesmen.

Figures 62, 63, and 64 show how the ratings are made. Figure 65 shows the report which the man makes himself at the end of the month. Figure 66 illustrates the master record card on

B-103		MANAGERS' REPORT ON ASSISTANTS		March 30, 1925.	
NAME <u>R. L. R---</u>		STORE <u>No---</u>		HOW LONG WITH YOU <u>5 mos.</u>	
IS HIS HEALTH GOOD? (Able to work)		IS HE LIKED BY THE OTHER MEN IN THE STORE?			
Apparently very good		Yes			
IS HE INDUSTRIOUS? (Willing to work)		DOES HE MAINTAIN PROPER RELATIONS WITH THE SALESWOMEN? (Manual page 125)			
Yes		Yes			
IS HE PERSISTENT? (Does he stick to his work)		IS HIS PERSONAL CONDUCT OUTSIDE THE STORE SATISFACTORY AS FAR AS YOU KNOW?			
Yes		As far as I know			
IS HE RELIABLE? (Can you depend on him to do his work)		IS HE NEAT IN PERSONAL APPEARANCE?			
Very		Very			
IS HE ADAPTABLE? (Does he adjust himself readily to his work)		IS HE A GOOD WINDOW TRIMMER?			
Very readily		Excellent? Good? Fair? Poor? If NOT GOOD NOW, DO YOU THINK HE WILL BE WITH MORE EXPERIENCE? Yes			
IS HE AMBITIOUS?		DOES HE DO GOOD DISPLAY WORK WITHIN THE STORE?			
Very		Excellent? Good? Fair? Poor? IF HE DOES NOT NOW, DO YOU THINK HE WILL WITH MORE EXPERIENCE? Yes			
DOES HE ACCEPT RESPONSIBILITY READILY?		MENTION ANY PART OF THE WORK FOR WHICH HE SEEMS ESPECIALLY WELL FITTED.			
Yes		Controls stocks well. Good sales getter			
DOES HE NEED CLOSE SUPERVISION?		MENTION ANY PART OF THE WORK WHICH SEEMS PARTICULARLY DIFFICULT FOR HIM.			
No		Planning work for others			
DOES HE GET GOOD CO-OPERATION FROM THE SALESWOMEN?		DOES HE IMPROVE?			
In general, yes		Rapidly? Slowly?			
IS HE ACHEATABLE?		DOES HE APPEAR TO BE REALLY INTERESTED IN HIS WORK?			
Very		ENTHUSIASTIC ABOUT IT? Very much interested			
IS HE COURTEOUS TO CUSTOMERS?					
Very					
HAS HE HAD OFFICE EXPERIENCE?					
Understands work well? Very little experience? No experience?					
IS HE COMPETENT OF TAKING CHARGE OF A DEPARTMENT? Yes					
IS HE READY TO BE PROMOTED TO ASSISTANT MANAGER? Yes					
IF NOT READY NOW, DO YOU THINK HE WILL BE WITHIN SIX MONTHS? Yes					
DO YOU THINK HE WILL DEVELOP FAR ENOUGH TO BECOME A MANAGER? No					
IS HE READY TO BE PROMOTED TO STORE MANAGER? No					
MENTION ANY DEPARTMENTS WHICH HE SEEMS ESPECIALLY WELL FITTED TO HANDLE					
Has done good work in all					
DO YOU THINK HE SHOULD BE TRANSFERRED?					
If so, what are your reasons? Not unless for promotion					
(signed) <u>W. B. E---</u>					
Manager					
THE REVERSE SIDE MAY BE USED FOR ADDITIONAL INFORMATION					

FIG. 62.—Note on the foregoing report that "planning work for others" is mentioned as difficult for the trained, while on the rating he rated lower in organizing ability than in any other quality.

which all the information contained in the four preceding forms is summarized. On the back of this record card is a complete list of wages paid, department assignments, and summary of all ratings received. It is stated that the cost of keeping up this

record system is small, taking less than one man's time. Each chain will have to work out its own system, but valuable information should be obtained from a study of how other chains are

W. T. GRANT COMPANY
RATING ON ASSISTANTS

Name of Assistant..... R. L. B........ Date March 30, 1925.....
Store..... NO. 1000..... Name of Rater..... W. B. B........
How long with Company..... 2 yrs. 1 mo...... How long with Rater..... 6 mos......

INSTRUCTIONS: In rating an assistant it is necessary to have clearly in mind the definitions of the qualities upon which he is to be rated. After you have thought carefully about a man in terms of one of these qualities, use the rating words as a guide and place a check on the basis of the work he is now doing - not on future possibilities. It is not necessary to place the check directly above any of the rating words.

BUSINESS PERSONALITY
Consider how he impresses you by his physique, bearing, manner and dress. Does he appear clean, alert, aggressive, enthusiastic?

Compelling ☒ Impressive ☐ Unimpressive ☐ Astonishing ☐ Repelling ☐

CHARACTER
Is he dependable, accurate in statement, open-minded, industrious and healthy minded?

Highly satisfactory ☒ Good ☐ Fair ☐ Doubtful ☐ Unsatisfactory ☐

CO-OPERATIVENESS
Consider his willingness to co-operate in matters assigned to him. Does he maintain cordial relations with his associates?

Active Co-operation ☒ Passive Co-operation ☐ Difficult to handle ☐ Obstructionist ☐

ORGANIZING/ABILITY
Consider ability to get results from work of others; to plan work, arrange responsibility, direct subordinates, check up results, to maintain discipline and command respect.

Strong leader and director ☒ Controls well ☐ Poor director ☐ Works haphazardly ☐

MERCHANDISING ABILITY
Consider ability to plan sales and display merchandise to get maximum volume of sales at satisfactory profit; to utilize counter space properly, to use knowledge of merchandise values, quantities, sales values and trade demands.

Superior ☒ Applies Principles well ☐ Very little ☐ Definitely lacking ☐

FINANCIAL ABILITY
Consider his ability and inclination to maintain balanced stocks and obtain the turn-over and the markup quotas in operating and ordering for his department. Does he show an appreciation of business economy in properly selecting and caring for supplies, fixtures and equipment, and in his demands for new? From the above consider his ability to gauge the proper relationships between sales, investment, profit and expense.

Complete control ☒ Satisfactory ☐ Little business sense ☐ Rockless ☐

STOREKEEPING ABILITY
Consider his ability to keep his departments clean, neat and orderly and to keep understock to counter. If in the stock room consider his ability to keep the stock room clean, neat and orderly and to keep the merchandise in the best clean and arranged for quick service from stock room to counter.

Ship shape order ☒ Efficient ☐ Barely passes muster ☐ Messes up department ☐

ATTITUDE TOWARD COMPANY
Consider his loyalty toward the Company, his confidence in the organization and his discretion in discussing policies.

100% W. T. G. Co. ☒ Enthusiast ☐ Can be depended on ☐ Destructive critic ☐ Open oppositor ☐

USE THE OTHER SIDE IF YOU WISH TO MAKE COMMENTS RELATIVE TO MEN OR YOUR RATINGS.

Fig. 63.—The rating shown above is the final rating shown in the summary rating record.

solving this problem of keeping track of men and promoting them when they deserve it.

Transferring Employees.—Transfer to a larger department or to a store in a better district often is a form of promotion, or an

endeavor to better a poor adjustment of employee and job. A man may be shifted for the following reasons:

1. *To Accustom the Man to Several Positions.*—Some chains habitually shift their organization, to give all concerned a fresh viewpoint. Also, every position has a number of understudies, ready to take up the regular duties of the position if for any

DATE	BY WHOM	1 BUSINESS PERSONALITY 25	2 CHARACTER 25	3 CO-OPERAT- IVENESS 25	4 ORGANIZING ABILITY 60	5 MERCHAND- ISING ABILITY 60	6 FINANCIAL ABILITY 60	7 STOREKEEPING ABILITY 30	8 ATTITUDE TOWARD CO. 15	TOTAL 300	REMARKS
2/16/23	Manager No. 1	20	23	25	-	-	-	-	15	Incom- plete	6 wks. with rater
8/5/23	" "	21	23	25	34	40	45	28	15	231	6 mo " "
10/10/23	" "	22	23	25	38	45	44	27	15	239	8 " " "
12/1/23	(Transfer) Manager No. 2	18	24	23	30	36	40	25	13	208	6 wks " "
3/15/24	" "	21	25	24	40	50	53	29	15	257	5 mo " "
5/10/24	(Transfer) Manager No. 3	23	22	23	42	48	56	24	14	252	6 wks " "
9/22/24	" "	18	17	15	45	51	52	27	11	236	4 mo " "
11/6/24	(Transfer) Manager No. 4	22	24	25	41	54	58	30	15	257	6 wks " "
3/30/25	" "	23	23	25	48	55	59	29	15	277	6 mo " "

FIG. 64.—Analysis of rating records by Mr. Fogler.

The foregoing is the summary of a typically good rating record covering a period of a little over two years under four different managers. The first rating is not complete, as the manager did not feel that he had sufficient opportunity for observation to rate fairly. Two things are immediately obvious in this record—the man apparently has very fine personal characteristics: Personality, character and willingness to co-operate; and in general he has made consistent improvement.

The second rating under Manager No. 3 does not seem to be in keeping with the other ratings and really it is not. Such a rating as this almost invariably indicates that there has been a disagreement of some kind between the manager and the trainee. In a case of this kind where the man gets along well with other managers, we usually find that it is more characteristic of the manager than of the trainee to fail to get along pleasantly with his associates. In this particular case the manager has not allowed his opinion of the trainee's personal characteristics to interfere with his rating of business qualities, which he rated high.

The quality which consistently rates the lowest on the summary is organizing ability. The ratings are not low, however, and they do indicate improvement. There is no reason to believe that development will not be entirely satisfactory, but it is important that the trainee be placed with managers who can give him special assistance in developing organizing ability.

The perfect rating aggregating 300 points, is shown at the top.

reason it becomes necessary. Some chains find it advisable to shift managers of stores from one city to another temporarily to give them fresh selling ideas, and in their absence the assistant manager takes charge, and is given an opportunity to win his spurs.

2. *As a Form of Promotion.*—Where a store manager is dependent on the profits or sales of his store for his salary, it is a fre-

quent practice to move a manager who has done well to a bigger or more profitable store. This is equivalent to increasing his pay and promoting him.

There is something to be said against this policy, however. It is not always desirable to break up business acquaintanceships. That is, a manager may be a positive drawing card to a

MONTHLY REPORT OF DEPARTMENTS											
To Be Filled Out At the End of Every Month (Instructions on the Back)											
Store No. _____				Signed <u>R. L. Brown</u> In Charge							
For the Month of <u>June</u> 192 <u>5</u>				Approved <u>W. B. Brown</u> Manager							
Department	How Long in Charge	STOCK END OF MONTH			SALES		TURNOVER		MARK DOWNS	MARK-UP TO DATE	
		Actual	Quota		Actual	Quota	Actual	Quota		Actual	Quota
A	3 mo	2361	1800	Month	1505	1300	.62	.72	1.53%	33.8%	85 %
				Period to Date	6645	6400	3.48	3.30	1.05%		
J	"	3927	4100	Month	3240	3000	.77	.72	1.02%	33.8%	85 %
				Period to Date	13467	13850	3.48	3.26	.89%		
P	"	4142	4200	Month	3492	3300	.84	.76	— %	32.9%	82.5%
				Period to Date	15420	15500	4.91	3.60	1.06%		
Q	4 mo	2398	2200	Month	1241	1000	.46	.54	1.3 %	39.1%	40 %
				Period to Date	6073	6173	2.51	2.77	1.92%		
T	"	3202	2600	Month	983	1000	.31	.38	3.01%	29.5%	31 %
				Period to Date	3970	6200	2.18	2.34	2.63%		
				Month					%		
				Period to Date							

FIG. 65.—The figures which are circled are those which do not equal or approximately equal quota. On the reports as sent to the Personnel Department these are in red.

store through the influence of his sales personality. This is true, of course, only where the manager meets his trade personally and would not apply to a chain department or variety store. But even in those cases the manager probably has a thorough knowledge of local conditions which benefits both him and the chain directly.

3. *As a Form of Demotion.*—If a manager fails to make good at a certain store and yet possesses many of the qualities requisite in a manager, it is sometimes possible to move him somewhere else. For example, a manager may succeed wonderfully in a

NAME			CLASS
Last	First	Middle Initial	
ADDRESS			
Street and Number		City	State
Date of birth	Test Score	Previous Experience	Began
Nationality	Education		Age at Start
Religion			Made Asst. Mgr.
Single Married Widowed			Made Manager
No. Children			
No. Dependents { Full Partial			
1 Store No.----	1	1	1
2 Manager W. B. E----	2	2	
3 From 6/22/24 To 3/30/25	3	3	
4 Mgr's Reports Excellent	4		
5 Mgr's Ratings 95.6 - 86.2 - 6 wks. 95.6 - 91 - 6 mos.	5		
6 Dept. Reports 6 - 67.3 - 77.6 - 85.2	6		
7 Insp's Reports 4 - 91.3 - 94.6 32 - 94.5 - 97.8	7		
8 Other Reports Assisted at opening of Store No.----	8		
1 Store			

FIG. 66.

small store where everything is personally attended to by himself, yet fail in a larger store because he lacks the ability to handle other men. The logical move would be to bring this man back to the small store.

CHAPTER XIX

THE CHAIN STORE MANAGER

Any chain is strong or weak according to its store managers. The company may formulate fine policies, establish efficient methods, and offer good merchandise, but this will not make the chain successful without the cooperation of the store managers. Using a military analogy, the managers are like the commanders of field units, with definite orders which they are supposed to carry out. The degree of responsibility of the store manager will differ widely according to the chain which he serves. In some cases, he will have little opportunity to use his own judgment; in others, he will constantly have to make decisions. He may be his own sales force, or he may have many employees under him. But these factors do not alter the essential importance of his position.

In addition to commanding a field unit, he serves also as liaison officer between the chain and the public. He represents the chain in the community or neighborhood; he can make or mar the reputation which the chain holds in his district. Unless he is in charge of a large store, he has a fine opportunity to form personal contacts with his trade. The reputed advantage of the independent merchant is much overestimated in this respect.

The previous chapters have discussed the methods by which store managers may be selected, trained, remunerated, and supplied with inspiration. This chapter deals more with the position of the manager himself, his duties and responsibilities, and his status in the community, as well as in the organization. It discusses the ways in which he can make himself valuable, and put himself in line for the promotion and increased remuneration which is the reward of honest and faithful service.

The Position of Manager.—The store manager's job may be divided into three parts:

1. He must carry out the policies and orders of the company. He is in the position of a subordinate on whose obedience and

willingness the strength of the organization depends. He has certain duties which he is supposed to perform. While the central organization tries to see that he performs them properly, in the end it is on himself that the performance depends. If he fails in his duties, he may manage to keep his job for a time, but he will not receive promotion, and eventually will be passed by his more efficient fellow workers. Thus in the first part of his function he is a servant.

2. He is entrusted with a certain amount of authority by the company, varying widely with the chain. He may do the buying in certain cases. He usually has a number of employees under him, with whom he must work harmoniously, and from whom he must secure a full measure of cooperation.

3. He is the representative of the company to customers and community. He has a certain standard to live up to, and, if he can, to improve. More depends on the character of the individual store manager than has been realized in the past. One man, given the same conditions as his predecessor, will materially add to the sales of a store, and he will do this to a great extent by means of his personality. The great argument against shifting managers here and there is that they get no opportunity to make a place for themselves in any one place.

The above points may be summarized in another way, dividing them according to the manager's principal duties and responsibilities:

1. Follow all instructions from headquarters immediately. Keep the store hours prescribed. Make price changes as soon as received. Do everything that is called for regardless of personal feeling about it.

2. Take care of stock, seeing that all merchandise is put away as soon as received in the places prescribed by company regulations. See that stock is reordered as soon as low.

3. Keep store clean and neat at all times.

4. Prevent waste wherever possible.

5. Follow out display instructions to the letter.

6. Make all reports called for by headquarters.

7. Train assistants so that they will be able to conduct store operations in case of accident to or sickness of manager.

8. Service to customers and community.

9. Plan work.

Knowledge of Stock.—Every properly trained store manager knows his stock thoroughly. This is a fundamental requisite of salesmanship and, even though in the majority of cases goods in chain stores sell themselves without the aid or effort of the clerk in displaying their advantages, a knowledge of stock is necessary. Stock must be turned as rapidly as possible. The only way to secure rapid turnover is to specialize on those goods which have shown themselves to be best sellers.

But in all cases there will be some goods which move faster than others. The manager who can keep the slow stock turning over is the most valuable. Thorough knowledge of the stock is required before the manager can order properly. He must be able to tell what will sell in his locality. Putting aside all questions of local and seasonal preferences, which are treated elsewhere, it is the duty of the manager to serve as the local interpreter between the public and the chain's purchasing agent. In the majority of cases the chain manager is allowed to pick out quantities of any article on the list sent out by the warehouse. The manager is supposed to be able to judge the wants of his customers and about how much they will buy.

The problem of knowing stock varies immensely, of course, with the type of goods sold. The problem of a drug store manager is far more complicated than that of the manager of a grocery chain, or of a hosiery store or a shoe store, the sales of which are limited to one product.

Knowledge of stock requires a proper care for details. Price tags should be properly fastened in place and changed promptly. It is bad policy to have a group of articles worth 30 cents marked 10 cents because they happen to be occupying space formerly covered by a 10-cent article.

The manager must see that the appearance of the store is maintained at the proper standard. He must not only notify the central office of articles running low, but he must see that these articles are properly arranged when they arrive.

In some chains, the manager is supposed to see that the rate of stock turnover prescribed is kept up. In men's furnishings chains, for example, a manager may have to see that no merchandise is held for longer than 6 months.

Prevention of Waste.—The store manager is ordinarily responsible for reducing waste in the operation of the store to a minimum. To see that he accomplishes the desired result, some chains follow a policy of inspection. The United Cigar Stores Company has a printed form for store managers, which lists 74 items which might cause waste and increased expenses. The more important of these are, according to *System*:

1. Watch for plumbing leaks and have them repaired promptly. A small leak in a faucet wastes 63 cents worth of water in a month; a badly worn faucet washer, \$2.52 a month; an overflowing toilet flush, \$10.08; a small faucet left open, \$40.32.

2. Use change trays on the counters to save the cost of replacing scratched glass.

3. Don't use long-distance telephone calls when a day telegram, a night letter, or a special-delivery letter will answer the same purpose; don't use a local telephone call when a letter will answer; don't use a letter when a postal card will answer.

4. In sending telegrams count the words; "twelve-forty-two" signifies the same as "one two four two" and saves a word.

5. Don't suggest delivery of packages when a customer intends to take package along.

6. Do not use good stock for window displays when dummies will answer the same purpose.

7. In the daytime remember that the electric light cannot compete with the sun.

8. Lamps should be tested for correct wattage; don't use large lamps in stockrooms, closets, and toilets, and do not allow them to burn unnecessarily.

9. Certain stationery forms last from one to four years; don't order fresh supplies when there are several pages left in the old book or pad; don't use stationery forms for scratch pads.

10. Waste paper and packing cases can be sold; so can all tin and lead foil; do not throw it away; keep it and sell it.

11. Eliminate express shipments as far as possible, in ordering goods or shipping to customers.

12. Do not waste window cards or other display material; take good care of it, because a card can be used two or three times if kept clean.

13. Look out for overstocking; every thousand dollars of overstock costs \$60 a year.

14. Use awnings and sun curtains to protect merchandise.

15. Keep extra electric light bulbs where they will be safe from breakage.

16. Do not use furniture oil on fixtures; powdered castile soap will keep fixtures clean and in good condition; considerable money may be saved on sign boards by washing them frequently with powdered castile soap instead of repainting them.

17. Keeping a daily record of petty cash expenditures, such as carfare, telephone, postage, matches, and other supplies, prevents carelessness and extravagance.

18. Dirt is a destroyer; keep stock in showcases and on shelves clean.

19. Dating stock will prevent it from becoming old.

20. Inventories should be taken at least twice a month by two people.

Other rules refer specifically to United Stores, such as turning off gas to cigar lighters at night, and the purchase of small supplies, such as brooms, mops, paste, twine, and the like, which are purchased at our headquarters in large quantities.

The Manager's Report.—Daily reports should be made by the manager to headquarters in all chains. The details of the report system, however, vary with the size of the chain and the type of product sold. The larger the chain, the more difficult it is to maintain personal contact with the branch stores. Hence it follows that the management must rely on statistical reports for its knowledge of the actual condition of a store. In small chains of five-and-ten-cent stores, centralized within a comparatively small radius, where the owner is in almost daily touch with each store and knows the managers intimately, reports are valuable as checks on his judgment rather than as courts of last resort. It is almost as easy to overemphasize the value of daily reports as to underemphasize them.

The following daily reports are required from the branch managers of a certain large drug chain:

1. There is a daily sales report, showing all sales, cash and charges, and all receipts from sources other than cash sales. The total as shown by the report is deposited in the bank and the main office receives confirmation of this deposit from the bank direct.

2. Managers are required to make copies of all orders for merchandise. One of these is sent to the main office and supplies a constant record of purchases which is used as a check for buying.

3. Statement of condition of "contingent fund" is sent in daily, together with vouchers of bills paid.

4. All invoices for goods purchased are sent to the main office and immediately on receipt are charged against the purchase account of the store. In order that they may be promptly audited and paid, it is necessary that receipt of the goods be established. For this purpose the quantities are omitted from one of the copies of the original order. When the goods reach the store, they are checked off on this sheet and quantities filled in. If there is breakage or other fault, mention is made on this sheet. It is dated as of the date of receipt of goods signed by and sent in daily by the manager. When this sheet is received in the main office, it is matched with and attached to the invoice.

The Regal Shoe Company has what it calls a Kodak Inspection Report made out every Monday morning, listing every physical feature in the store, even the appearance of the men, and giving each feature a grade. One section of this report goes to the maintenance department, another to the merchandise manager, and a third to the personnel manager. Each report must be signed by the manager of the store. There are regular store sales and expense reports, of course, in addition to this report on physical features.

Planning Work.—While most of the manager's work is planned for him by headquarters, it is always possible for him to utilize his time so that this work can be distributed to best advantage. The following schedule of duties was made by a chain store manager of the Mutual Grocery Company, Newark, N. J.:

Monday.—Devoted to building new and attractive displays, cleaning and polishing all glass and polished surfaces, such as cracker boxes, candy jars, glass in icebox, coffee mill, etc.

Tuesday.—Prepare store to receive load of goods coming in Wednesday. Shelves are gone over and room is made for all surplus goods that may be in back room; price tags on shelves are checked over to take care of those misplaced after the week-end rush.

Wednesday.—Receive load of goods, which arrives about 9 a.m. Smith and his clerks get load on the shelves during the day no matter how late they may have to stay to finish the job.

Thursday.—Smith and his clerks have a weighing bee. They usually keep the scales busy until closing time. Everything in bulk is weighed and set in its allotted space.

Friday and Saturday.—All day at the counter. With everything in readiness for the week-end rush, Smith can concentrate on selling.

Authority.—The direct control which the manager has over his store is delegated to him by the central organization as its agent. Thus the first great point in delimiting the authority of the branch manager is the policy of the company in this respect.

1. *Company Policy.*—Some chain systems regard a store manager as merely a clerk over whom supervision must be exercised by other means than direct personal control. He may not be allowed to hire clerks, to make any purchases, or to withdraw any money from receipts for contingent expenses. There is no standard policy as to branch managers.

2. *The Size of the Chain.*—Generally speaking, the smaller the chain the smaller the responsibility of the store manager. Thus, if the chain system were confined to a single town, the manager would probably not be allowed to make any purchases. All goods would come to him direct from the main warehouse. If a package were broken, he would have to keep the actual package for the inspection of the management, or else be charged with the retail price of this package. He would train no help, as the central organization would do this. This policy is not confined to small chains, however, since the United Cigar Stores train salesmen themselves and then distribute them to member stores.

Where a number of branch stores are close together under the constant supervision of a district manager, their authority will be less than where the units are broadly scattered. In the latter case, the manager may be almost autonomous.

3. *The Type of Product.*—The manager of a store containing large floor space and varied stock necessarily must have broader authority. He has more men and women working under him. His volume of sales is larger, his stock of goods is more valuable. He receives a larger salary. For example, the manager of a branch dry goods store may have to have a large amount of authority. He may be authorized to refund money, make exchanges, cut prices to meet competition, increase advertising appropriations, employ extra sales help, sell loss leaders, divide departments to suit himself, employ and discharge help, raise and lower wages, purchase goods, veto price recommendations made by the home office, and select the goods he wishes to sell from samples submitted by the purchasing department. In this

case, it is the manager who must meet the competition by adapting his policies to meet local conditions.

In a grocery store, the other extreme exists. Often many of these stores belong to one organization in a community. The store manager has no authority as to what he shall sell or the price at which he shall sell. The manager is there to see that instructions from the warehouse or buyer as to prices and goods to be sold are carried out. The goods from the warehouse are invoiced to him at retail prices and he must sell his quota.

The manager of a shoe store carrying a branded, advertised line might be required to conduct his store according to strict rules laid down by the home office as to prices and advertising, but he has latitude in his choice of styles to sell and his method of selling them.

As to the authority of a manager in a five-and-ten-cent store, it is said that the manager of each local store is responsible to his district office, which, in turn, is under the central office, and from that office originate all important orders. The manager has little to say regarding the policies under which the store to which he is sent is to operate. He is transferred by the central office from one store to another, from one city to another, as his supervisor thinks best. As one manager put it: "If it isn't a promotion it's a demotion, and it's not up to you to fuss about it."

From what has been said, it is easy to see that no set rules can be laid down for limiting or extending the authority of the branch manager. In each case, it will be dictated by the policy of the controlling body as modified by circumstances.

Moral Responsibilities.—The majority of chain systems have been able to create an *esprit de corps* which goes a long way towards offsetting the disadvantages experienced in finding and training branch managers. Such a spirit must exist if the chain is to expand and be successful. This feeling is obtained partly, of course, by arranging a scale of remuneration to fit the ambition of the type of man desired, but money alone would never be sufficient. There must be this sense of moral responsibility which the branch manager has for his store.

The manager becomes a part of the system, on the one hand, and a part of the community in which the store is located, on the

other. He is the connecting link between the impersonal chain and the customers. He wishes the chain to appear well in the eyes of the public, as judged through his store. Therefore, he keeps it neat and clean, and forgets to note the overtime he spends in making it attractive. He has a feeling of pride in the store and something akin to a feeling of ownership. The chains which make the yoke of the necessary accounting routine weigh as lightly as possible, and place the largest premium on the individuality of the store manager, may succeed fast in securing the loyalty of this branch of the personnel. The man who is working for himself pays little heed to hours or wages.

Financial Responsibilities.—The manager is not only morally responsible for his store, but he is financially responsible. He must look out for the stock and for the money taken in from sales. This responsibility differs in actual practice. In some chains, as explained in a previous chapter, no one but the manager is permitted to open the cash drawer or make change. A clerk may take money from a customer, but he has to call the manager to put it in the cash drawer or make change. The rule may seem strict in this case, but it places all responsibility fairly and squarely upon the shoulders of the store manager.

Usually a store manager should be required to furnish a cash bond, and any shrinkage in stock which is unaccounted for is likely to be deducted from this bond. In any chain, allowance is made, of course, for unavoidable shrinkages. Bonding should be required in chains where the financial responsibility of the manager can be adequately protected in this way. A manager with a great deal of authority naturally cannot measure his honesty by any such method, since his position alone is in the nature of a bond. But for the manager of a small branch store a bond is at once a gage of his honesty and a guard against temptation.

Ordinarily, cash receipts from the daily sales in the branch store are put in the local bank. In some local chains, cash is collected daily by an employee of the chain. In the Penney stores, receipts are banked, subject to New York draft, three times a week. In some chains, the manager may be allowed to deduct sums necessary to pay current expenses connected with the operation of the store. In other chains, a "contingent fund"

is provided for paying such bills and providing change. Every expenditure, however, must be vouched, and each week the manager must make a report of the condition of the fund and send in his vouchers for verification. This permits depositing the results of each day's business in total and an audit of vouchers plus an examination of cash in the "contingent fund" quickly establishes actual expenditures of the store.

As a general principle, all money taken in by branch stores is concentrated at headquarters, for two reasons:

1. Purchasing functions are centralized in one place and all other major expenses—salaries, bonuses, etc.—also are paid direct from the central organization.

2. It is easier to teach the average man how to sell goods than it is to teach him finance. The less he has to do with financial responsibilities, other than those absolutely necessary, the better he performs his other duties.

The Store Manager and the Community.—In the first place, the store manager must be suited to the community in which he operates a store. If he is in a section tenanted mainly by people of Irish descent, it would be wisest to have a manager of the same racial extraction. Similarly, the store manager in a high-class city residence district should differ from the store manager in a small rural community. The chain, in other words, will have several types of store managers, perhaps each equally efficient in merchandising ability, but each possessing certain qualities or characteristics which will fit him to the community he serves.

The part which the manager should play in community life varies a great deal. The chain has always the fact to consider that if an independent merchant fails to subscribe towards some community activity he is not denounced openly therefor, while if a chain makes a similar refusal, this immediately offers a hold for adverse criticism. Obviously, the manager, unsupported by the chain, cannot hope to make a place for himself in the community, and obtain thereby community good-will. Chains are showing an increasing tendency to take this problem of enlisting community good-will into consideration. The manager of the local or neighborhood chain store is, in some ways, in a difficult position, competing, as he must, with retailers whose hold on the public has been built up through long and intimate

service. Even though his sales volume is satisfactory, and yields a profit to the chain, it is quite possible that both sales and profits would be increased if the manager could get himself accepted by the community. His independent competitors are almost always antagonistic when he first begins business there. It is not a simple matter to overcome this sentiment of hostility, but it can be done by working through the customers, convincing them that fair dealing and interest in local affairs are not incompatible with merchandising efficiency.

CHAPTER XX

THE CHAIN STORE EXECUTIVE

Few executives have shown greater foresight, greater financial ability, or greater merchandising sense than the executives of the great chain systems. Woolworth, Kresge, Whelan, Schulte, and Penney are names to conjure with in the business world. If it is true that the success of their respective chains has been due to a combination of many factors, yet, without the guidance of these pioneers, it is difficult to see how the phenomenal growth of these particular chains could have taken place.

The day of chain control by individuals has largely passed, or, at any rate, is rapidly passing. Growth has brought with it the corporate form of organization, the body of stockholders, the board of directors elected by them, and the administrative system underneath. There are certain officials—the president, the vice-presidents, the secretary, the treasurer, and the general manager, who usually handle the operation of the chain, the same as in other large corporate enterprises.

In most chains there are a number of minor executives in charge of specialized chain activities, such as buying, display, advertising, insurance, real estate, or perhaps agencies.

Finally there are the district managers or supervisors, who represent the chain in the field. Each of these men is in charge of a certain district or group of stores, and is responsible, in most cases, for the performance of stores within his control. In many cases, the district manager is the only contact which store managers have with the rather impersonal chain executive organization. Hence, the position of district manager is of the utmost importance, and as chains grow becomes of still greater importance, for the personal supervision of the major executives is naturally lessened.

The Organization Plan.—Organization plans for chain stores range all the way, as might be expected, from the simplest to

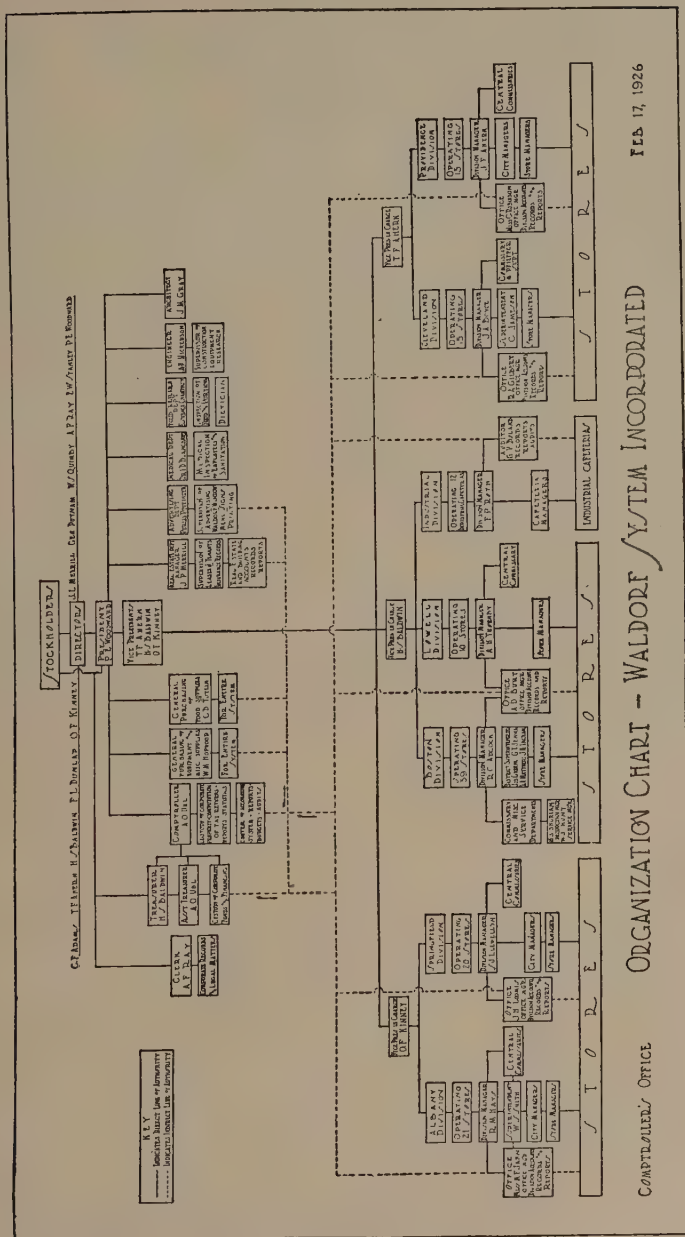


FIG. 68.

the most complex. In a small chain, the owner is his own general manager, buyer, personnel department, and sales-promotion specialist. In the larger chains, the organizations are exceedingly complex and differentiated.

Figure 67 shows the organization chart used by a Canadian grocery chain, in which the president and the vice-president divided up the activities between themselves, each being responsible to a board of directors.

Figure 68 shows the highly specialized organization chart of the Waldorf System, Incorporated, a very successful restaurant chain. There is a geographical organization into divisions, each with a division manager in charge, reporting directly to a vice-president. Each one of these divisions is virtually an entity in itself with office and commissaries.

The line of promotion has usually been well marked. Ordinarily a man starts in behind the store counter as clerk, becomes assistant, then store manager, and so on up through the rank of district manager or supervisor to that of superintendent, and from that to vice-president. One of the fundamental needs of every chain is competent executives, and this is especially true of an organization divided into a large number of units, each of which functions as an individual entity. In the case of the United Cigar Stores Company, there are five districts, each in charge of an assistant vice-president, who is traveling constantly. The district superintendent is responsible to from 60 to 100 stores, and under him is the corps of district superintendents with about 15 stores under each one, each of which is visited once a day.

The number of necessary links between the executives and the retail store ordinarily varies directly with the size of the chain. As long as it is possible, the chief executive keeps in touch with member stores, but as soon as the stores multiply, his information concerning them must be gathered by intermediate links who, in addition to performing policing functions, sift information and deliver it to the central office.

Executive Functions.—In general, the executive functions of the head of a chain store system are two:

1. He must supervise the machinery which he himself or others have set running. He must see that nothing gets out of

order; he must follow up indications on the daily executive report; he must be the court of last resort in case of dispute.

2. He must initiate ideas and sift out the best schemes from all those submitted to him by his subordinates. Ideas count in chain store organizations as everywhere else. The continued success of a chain store must always be modeled on its ability to keep one step in advance of its independent competitors, and the ultimate responsibility for this rests on the shoulders of the executive. Owing to the policy of promotion employed in chain systems, namely, that of merit, it is rare to find a chief executive who is not surrounded by a group of able men.

The executive of the chain has two methods of getting information, the one supplementing the other:

1. From the daily records, which keep track of stock and sales, furnish the means for tracing leaks, and help train clerks in habits of accuracy and honesty.

2. From the men directly reporting to him and with whom he consults regarding the company's policies. In the days when Mr. Whelan was actively connected with the United Cigar Stores he allowed himself but one vote at the regular weekly board meeting. If he advocated a measure at one meeting, which was adopted, several meetings later he would attack the measure from some other angle.

The executive reports, as illustrated later, show how all information is digested in tabloid form for the executive. This is in line with the accepted theory that an executive should not be immersed in detail. His business is to find subordinates who can do the detail work for him. It is an excellent practice, of course, to have the executive deal in percentages but, before leaving this point, it would be well to remind the reader again that only through a thorough knowledge of all the detail connected with the business is it possible for the executive to grasp the true significance of the percentages.

Specialization.—The larger the chain store becomes the more profitable it is to divide and subdivide functions among specialists who are experts in their own lines and receive large salaries for the work they do.

For example, the proprietor of a small chain probably does the buying himself, sees to the window trims, prices articles,

and, in brief, does most of the work himself. Soon he finds it necessary to have someone do his purchasing for him. He does not have time to look out for it. Next, he has to get a bookkeeper and perhaps an expert accountant. As his chain grows, his staff of experts becomes larger. Someone has to look after the advertising. Finally, he has to have someone to take charge of the real estate.

The number and the functions of the specialists vary with the type of chain. Most chains have traveling auditors who drop in at intervals and audit the individual stores. One large bakery chain employs traveling bakers and traveling merchandisers who operate out of the home office and are not attached to any given district or territory, but make the rounds of the entire country.

The aim is always to keep organization costs down to the lowest possible point, based on experience, which is figured on a general maximum production as against a general minimum payroll. The specialist must demonstrate the worth of his services or he is dropped. That is, the real estate must prove a good investment, the window trims must sell goods, and the house organ must instill an *esprit de corps* throughout the organization.

Supervisors and District Managers.—Depending on the number of stores in the chain, there will be a body of line officials who will represent the management to the store manager. In chains of moderate size these district managers will report directly to the general manager; in very large chains they will report to a district supervisor or superintendent who in turn will represent them to the management. George H. Hartford, the founder and creator of the Great Atlantic & Pacific Tea Company, for many years made it a point to see all his managers and superintendents personally. He was not satisfied to accept their reports but often dropped in on the store of the chain that happened to be nearest him, wherever he might be. He always, for example, called on the local store at the place where he spent his vacation.

Assignment of stores to a district managers is usually made on the basis of distances between stores, the number of times weekly which the chain regulations call for visiting the store, and the

nature of the district manager's duties in regard to the store managers.

The experience of many chains goes to prove that the position of district manager is a key one. On his ability depends, in large measure, the showing of the various stores within his district. He is, of necessity, far more free than the store managers themselves, from supervision by the management. It may happen that his job may grow monotonous, and the daily routine of calling on stores rather boring. It is the part of the management to see that the morale of the district managers themselves is kept at top pitch, because otherwise it will be impossible to reach the store managers and instil in them the desired conception of company policies.

The ordinary policy is to promote district managers from the ranks of the store managers. One chain executive believes that otherwise they will not be able to command the respect of store managers. Furthermore, if supervisors are chosen from outside the organization, then the hope of promotion is taken from the store managers, and one of the strongest factors in holding a chain organization together has always been this certainty of promotion when a man's record shows that he is ready for advancement.

The S. M. Flickinger Company, Inc., of Buffalo, N. Y., however, believes that the best supervisors are obtained from outside the chain. Many of the supervisors are men who once had successful businesses of their own, and have the executive point of view, as well as the ability to handle men. This company has found that an excellent store manager sometimes makes but an indifferent supervisor, particularly because his experience as store manager has not taught him how to handle men which, after all, is one of the primary duties of the supervisor.

Qualities for a District Manager.—However a district manager or supervisor may be selected for his position, he must be possessed of certain qualities if he is to fill his job satisfactorily. Differences of opinion exist, as is natural, in regard to their relative importance, but the following qualities are those which are ordinarily stressed as desirable for the district manager or supervisor:

1. *Loyalty*.—The district manager must be firmly devoted to the methods and policies of the firm which he serves, and he must inspire this same feeling of loyalty in the store managers in his district.

2. *Honesty*.—Opportunities for peculation and collusion are naturally open frequently to the district managers. It is to his credit that records of actual dishonesty are few.

3. *Personality*.—If he is to command the respect and confidence of the store managers, he must be able to lead them rather than to drive them. While a stern disciplinarian will obtain results, often of a satisfactory nature, these will not be comparable to those obtained by the district manager with personality.

4. *Knowledge of His Field*.—A good district manager is an expert in the detail and routine of his business. He should be able to detect lapses from chain regulations quickly and accurately.

5. *Knowledge of Men*.—Since so much of a district manager's work lies in the management of the men under him, he must know how to do this in a way which will arouse least friction and bring the most results.

6. *Ability to Instruct*.—If a district manager is not able to impart his knowledge to his store managers, much of his value to the chain is lost.

7. *Other Qualities*.—There are other qualities which may be desirable, depending on the chain and its policies. Thus he may have to be acquainted with the rudiments of display technique, so that he can make sure the store manager's display is doing its part in building up store volume. He may also have to be something of an accountant, especially when he is entrusted with care of inventory checking.

Inspection.—First and foremost the district manager is an inspector. He must see that the store is being run as it is supposed to be run. This extends from the physical details of clean windows and store to the less obvious details of salesmanship. Some chains, for example, like to have their supervisors listen to conversations between managers and customers to see whether it is being done in the way desired by the chain.

To enumerate all the things of which a district manager or supervisor should take note would be difficult. Certain of the more obvious ones are the following:

1. *Cleanliness*.—This applies to the store itself, and also to the linen of the clerks. It concerns also the price tags and the display material. If there is a refrigerator, the supervisor will look inside to see whether it is in proper shape. He will go down to the cellar to see whether old papers, boxes, and other rubbish have been properly disposed of.

2. *Waste*.—He must see whether paper and string are being used economically. He must also see whether the weighing of goods is done carefully. He must check up on the use of lights and water. He must see whether the store manager has too much help for the volume of trade.

3. *Attention to Store Regulations*.—Most important of all, he must see that the store managers are carrying out the company rules to the letter. Often a store manager, for some reason, neglects a regulation, and the district manager also neglects to call his attention to this.

Where a chain has no special inventory crew, the district manager may be called upon to check up inventories. This is not always thought good policy because of the opportunity for collusion between store manager and supervisor. Many chains, therefore, have special inventory men, operating directly under the control of the sales managers, and having no contact with supervisors. To see that inventory men themselves are carrying out their work faithfully, some chains have supervisors make inventories after them and without their knowledge, thus affording a check.

Some chains believe it desirable to shift district managers at certain definite periods, to prevent their becoming partial to certain managers, or getting in a rut. Other chains believe the district manager should be given a permanent group, in which he may take a certain pride of accomplishment for whatever success he obtains.

Instruction.—The district manager or supervisor must at all times be an instructor. This applies to the method of handling the store and carrying out the policies of the company. As the executive of one chain says: A district superintendent can take one of the stores placed under his care and can arrange a better vegetable display, and work off the surplus of old goods if there is any, and give the store a new arrangement of stock and fixtures

so that it looks like a different store. He can take clerks who have got in a rut and can put new life and the joy of salesmanship in them. He can bring business up from a bare living to a point where the store is making money.¹

In other words, in addition to his police capacity, the supervisor has a very real opportunity to help store managers make more profits for themselves and the chain. He must be able to teach what he knows to others. What this instruction will cover is shown by the following headquarters regulations:²

1. Instruct men that our stores open not later than 7:15 a. m.
2. Advise the men at all times to keep themselves as neat as possible. Wear clean coats and aprons. This also applies to assistants.
3. Instruct men on Inspection System. The Inspection System covers 20 items. Go over each one of these items in detail with prospective men carefully. The success of the manager as well as building the business of the store depends a great deal upon being thoroughly familiar with and following out all details listed on Inspection Report.
4. Teach men to be suggestive in waiting on trade, always suggesting staples and merchandise in season. Tell them the advantages of selling Mother's Joy products as they are more profitable and the quality is first class. Encourage the sales of Mother's Joy products but do not force the sale.
5. Instruct men how to order merchandise on main order and also short order, also how to check and sign for same upon delivery. Teach them the meaning of the articles marked "Bold." In making up your orders, go over your stock carefully, always see that you have all merchandise listed in price book in stock. Never carry an excess of stock as there are always two deliveries weekly to each store. Advise the importance of stock turn over. Order enough stock to meet sales requirements but do not carry a surplus of slow moving merchandise.
6. Show men how to make out their daily merchandise reports, weekly cash reports, daily bank deposit slips and all return credits on empties to warehouse, and to direct shippers any credit issued by the District Manager. See that all soiled laundry is returned immediately.
7. Instruct men how to keep price book up to date. How to change price tags on shelving when notified of advance or decline. How to make out advances and declines.
8. Instruct men how to make good window displays. All windows to be washed and trimmed each Thursday. Posters put up and price

¹ *Chain Store Age*, p. 65, July, 1926.

² *Chain Store Age*, p. 37, July, 1927.

tags placed on merchandise in window on Friday morning. Always see that your center window display is properly arranged. The center window display is also the talking point for the week and should be displayed on counter. Arrange all window displays and signs so as to get best results from same.

9. Instruct men at all times to keep only a small amount of money in cash drawer. Keep the balance in the safe and have safe locked. During lunch hour or while making bank deposits see that all money is placed in safe. Never accept checks from strangers.

10. Instruct men at all times to be courteous to the trade and any merchandise returned by a customer will be taken back without controversy. Our policy is, "The customer must be pleased."

11. Have men realize the importance of attending monthly meetings at headquarters on the second Tuesday of each month and also District Managers' meetings on the fourth Tuesday of each month at the store designated by the District Manager.

12. Instruct men to see that bread order is placed on hook outside of store each night before leaving, and also see that bread hampers are put out each night with the exception of Saturday night. No hampers should be out over Sunday.

13. Instruct men how to cut cheese; always see that cheese is kept in good condition by cutting it from both sides. This will keep one side from getting hard and will avoid considerable loss. If, in weighing cheese you cut a little over weight mention it to the customer. They will generally pay the few cents difference. This will also avoid waste.

14. Instruct men how Oleo should be displayed and sold. Oleo must always be sold out of original container in which it is received. Always see that the Oleo stamp on container is destroyed when it is empty. Never sell over 9 pounds at one time. The Federal law governs the above. Never display it except in the original container.

15. Instruct men in regards to empties returned to warehouse. Have all empties for return ready on the day scheduled for delivery of your main order. Empty bags should be counted and returned in lots of 25 to the bundle. Empty bottles should always be returned in original case. Egg cartons should be returned with layers and fillers.

16. Teach men when weighing merchandise how to wrap and fold bag. When using tidy tape see that packages are neatly taped.

17. Teach men how to go over extensions and totals on all invoices. Put down a column of figures and see if they can add them rapidly and accurately.

Authority.—The amount of authority exercised by district managers and supervisors differs a great deal. In some cases,

almost every one of their actions is marked out for them, in others, they have fairly wide discretionary powers. Generally speaking, if district managers report directly to the home office, they can be given a freer hand than allowed those who report through intermediate officials. It is usually agreed that district managers should meet together frequently and discuss matters of importance to all. If they have individual problems they may bring them up at this time and seek aid from the experience of their fellow district managers.

It is probably best to have store managers understand that implicit obedience is due to district managers. If the district manager is failing in his task of liaison officer, this will show quickly enough in the records of the stores under him. On the other hand, district managers should understand that they not only have the right but the duty to pay special attention to store managers who are falling behind. In one grocery chain, the district manager is allowed to hire extra men if he deems this desirable for any store; he may also increase prices in out-of-town districts without waiting for authority from headquarters, but he is not allowed to reduce them.

Supervisors are always expected to exercise their authority in such a manner as not to arouse antagonism.

Rating District Managers.—It has been found that it is possible to rate district managers on the basis of performance, according to the experience of Mutual Stores, Inc., Oakland, Calif.¹ Figure 69 shows the rating chart in use by the company. The first column lists average gain in sales per day, one point being allowed for each dollar gained, or a maximum of ten points for a \$10 gain. Losses are registered in the same way.

The second column shows average gross percentage. If the maximum gross is 16 per cent, 60 points are allowed for 16 per cent; 45 points for 15 per cent; 30 points for 14 per cent; 15 points for 13 per cent; while 12 per cent is poor, or zero.

As average daily sales and stock in stores are not considered controllable, the ratio of turnover is used, being figured by dividing the total sales for the month by the monthly inventory, taken at retail.

¹ *Chain Store Age*, May, 1927.

Inventory adjustments represent the difference between what is on hand and what should be on hand when inventory is taken. This has been brought down to one-eighth of 1 per cent for 160 stores.

<u>DISTRICT MANAGERS' RATINGS FOR JANUARY</u>					
<u>Gain or loss in sales, av. per store</u>		<u>Gross percent av. per store</u>		<u>Average sales per store per day</u>	
Grady	\$12.00	Grady	.1630	Willson	\$191.00
Willson	11.00	Johnson	.1611	Johnson	189.00
McCarthy	10.00	McCarthy	.1661	Roberts	186.00
Roberts	9.00	Miller	.1666	Grady	187.00
Johnson	8.00	Roberts	.1660	McCarthy	185.00
Smith	7.00	Willson	.1643	Smith	184.00
Miller	6.00	Smith	.1631	Miller	183.00
<u>Stock in stores</u>		<u>Ratio of turnover per store per month</u>		<u>Inventory adjustments percent on sales</u>	
Willson	\$2696.00	Willson	2.12	McCarthy	28.36 .0003
Roberts	2600.00	Roberts	2.06	Willson	32.59 .0003
Grady	2527.00	Grady	2.06	Smith	46.39 .0006
McCarthy	2496.00	McCarthy	1.97	Grady	118.46 .0013
Smith	2401.00	Smith	1.96	Roberts	161.65 .0016
Miller	2332.00	Miller	1.95	Miller	154.82 .0017
Johnson	2046.00	Johnson	1.92	Johnson	612.73 .0064

<u>GENERAL RATING OF DISTRICT MANAGERS FOR JANUARY</u>					
<u>Loss of gain in sales</u>		<u>Gross percent</u>		<u>Ratio of turnover</u>	
1. GRADY	10	60	10	19.70	98.70
2. MCCARTHY	10	59	9	19.70	95.70
3. JOHNSON	8	60	9	17.64	94.64
4. WILLSON	10	51	10	17.06	88.60
5. ROBERTS	9	50	10	18.99	87.59
6. MILLER	6	55	9	15.70	86.70
7. SMITH	7	49	9	17.00	82.00
<u>HIGHEST RATING POSSIBLE</u>		<u>AVERAGE RATING JULY TO DECEMBER, INCLUSIVE</u>			
Loss of gain in sales	10	1. GRADY		97.61	
Gross percent	60	2. MCCARTHY		86.61	
Ratio of turnover	10	3. MILLER		86.09	
Inventory adjustment	$\frac{20}{100}$	4. WILLSON		86.25	
		5. SMITH		82.64	
		6. ROBERTS		81.90	
		7. JOHNSON		81.30	

FIG. 69.

The center group on the illustration shows the general average rating of the district managers for 6 months, while below this is the tabulation of perfect scores.

CHAPTER XXI

STOCK CONTROL AND MAINTENANCE

It is the aim of every chain system to have a well-balanced stock of merchandise, large enough to supply the normal demands of consumers, and small enough to ensure rapid turnover. To attain this goal, it is normally necessary to assume the function of storage which, in turn, necessitates financing of purchases and distribution of stock from warehouse to store units. There are at least four integral parts to be considered in connection with stock:

1. Some form of budget must be employed to estimate how much stock and what kinds of stock will be required during a forthcoming period. This may range from a simple, rough calculation to a careful, scientific forecast of needs. It serves as the basis of the purchasing budget, which, in turn, forms an integral part of the financial budget.

2. A warehouse, or group of warehouses, will be required to house the stock. In connection with this a system of distribution must be set in motion which will convey goods from warehouse to unit stores most expeditiously and inexpensively.

3. A system of stock control must be inaugurated which will allow the management to know at all times the condition of stock, whether a particular item is getting low, whether there is an overstock at any one store, or whether stock is moving properly. A number of stock-control systems are described in this chapter.

4. Finally, an audit system must be devised to check the working of the stock-control system, to find out by taking physical inventories whether the stock situation is as represented, to determine by some means of inspection, whether the system is being complied with by the personnel.

The Differentiating Factors.—It is impossible to state dogmatically what such and such a stock system will do for a given

chain. In the majority of cases, stock systems grow up to fit the individual needs. Certain principles apply, and certain practices which work well in one instance will work well in another. But, on the whole, there is a great variety in actual procedure. Some of the factors which determine this variation are the following:

The number of items handled naturally makes a great difference in the complexity of the system employed. The normal drug-store unit stocks 3,000 items; an automobile accessory chain, as many as 7,000, while a chain of shirt shops has a relatively smaller problem, as far as number of items is concerned.

Another factor of prime importance is the size of the chain and the location of its units. A small, local, compact, chain may be grouped around a central warehouse, and be supervised in almost every detail by the personal management of one individual. Another chain may have units as much as 1,000 miles from each other, in which case the problem immediately becomes widely different.

The perishability of the product will also have something to do with the storage system. This may be said to apply not only to food products, but also to those products which are rendered unsalable by a change in style. In each case speed in handling is essential.

If a rapid rate of turnover is to be maintained in the unit stores, and this is normally the ambition of the chain management, then the warehouse with its delivery network and with the necessary paper work for ordering goods from warehouse by store managers must be set up with exceeding care.

There are many other factors to be considered. For example, the size of the products handled will make a difference. A jewelry chain, for example, would have little need for large warehouse space, while a grocery chain finds warehousing one of its major problems. Similarly, a product which has certain definite buying seasons can usually be bought at those seasons to best advantage and must be stored until such time as they are required for sale to consumers.

Stock Control and the Budget.—Since a chain system is strictly a retailing venture, merchandise is never bought on the probability that there will be a rise in the market price. Only

such amounts of merchandise should be purchased as can be disposed of by the store units, but, inasmuch as it is often desirable to make advance financial preparations and to place orders for future delivery, some form of budget is necessary.

The basis for the stock budget is, of course, the estimate of sales for the coming year.¹ These should be tabulated not only by items of merchandise, but also by months of the year, and by

PURCHASE BUDGET - MAY 1st to DECEMBER 31st, 1929 - ON BASIS OF ESTIMATED SALES

7/10-25 *Chs*

	SHIRTS		COTTON		HIGH PR.		NECK		COL- LARS		TOWEL		H.S. & T.		MISC.		TOTAL SALES		RETAIL	COST		
	RE. CL.	B. C.	RE. CL.	B. C.	RE. CL.	B. C.	RE. CL.	B. C.	RE. CL.	B. C.	RE. CL.	B. C.	RE. CL.	B. C.	RE. CL.	B. C.						
MAY	80	43	80	80	3	1	60	37	18	12	30	20	12	22	7	4	17	10	310,000	211,000		
JUNE	73	54	78	85	3	2	60	37	19	13	30	20	12	18	9	6	19	11	345,000	227,000		
JULY	73	54	104	89	3	4	60	37	18	13	32	21	20	19	9	6	21	13	355,000	235,000		
AUGUST	70	58	99	84	3	4	54	34	18	12	30	20	22	15	9	6	22	12	338,000	222,000		
SEPTEMBER	64	45	81	36	5	4	43	28	17	12	24	14	14	9	8	5	24	14	284,000	187,000		
OCTOBER	60	42	84	41	5	3	48	30	18	12	27	18	21	14	9	6	26	15	288,000	202,000		
NOVEMBER	60	42	82	37	9	4	57	28	18	12	30	20	24	14	9	6	30	21	317,000	217,000		
DECEMBER	112	78	175	114	45	20	140	81	30	13	60	40	24	14	21	17	105	48	700,000	458,000		
TOTAL SALES EST.	974	618	830	531	84	97	584	323	168	98	343	175	194	139	61	52	271	159	2,947,000	1,954,000		
MAY 1st - orders placed unfilled	215	136	220	146	8	1	63	40	--	--	30	20	30	19	29	18	8	8	597,000	409,000		
PURCHASES TO BE PLACED AFTER MAY 1st FOR SALES 1930. DEC. 31/25	759	253	610	405	82	54	441	283	146	98	235	155	144	110	52	34	243	153	2,350,000	1,545,000		
MAY Required On order & Fed. Purch. for May sales	43	80	35	73	2	1	37	18	12	30	20	12	22	7	4	17	10					
JUNE Required On order & Fed. Purch. for June sales	54	82	49	11	3	2	37	19	13	30	20	12	18	9	6	19	11			73,000		
JULY Required On order & Fed. Purch. for July sales	54	82	53	39	4	4	37	18	12	31	15	20	14	9	6	21	13			89,000		
AUG. Required On order & Fed. Purch. for Aug. sales	58	64	16	50	6	4	34	13	20	12	25	14	9	3	3	12	12			141,000		
SEPT. Required On order & Fed. Purch. for Sept. sales	61	54	8	48	6	4	28	12	18	9	20	14	9	5	5	14	14			124,000		
OCT. Required On order & Fed. Purch. for Oct. sales	43	62	61	42	3	3	30	13	18	12	18	14	6	8	7	15	14			179,000		
NOV. Required On order & Fed. Purch. for Nov. sales	43	57	61	57	4	3	34	12	20	12	18	14	6	8	7	15	12			203,000		
DEC. Required On order & Fed. Purch. for Dec. sales	78	114	78	114	30	20	84	13	30	13	40	18	24	13	13	62	57			217,000		
TOTAL PURCHASES TO BE MADE AFTER MAY 1st	233	405	54	283	96	155	110	34	151										452,000			
TOTAL	1,207	723	884	936	180	117	695	436	268	208	403	325	338	249	113	59	381	211	1,947,000			
REMARKS																					TOTAL RETAIL	COST
																					31,000	28,000
																					89,000	53,000
																					140,000	83,000

FIG. 70.—The Purchase Budget used by the National Shirt Shops which enables it to control its stocks and, at the same time to provide for probable requirements as indicated by estimated roles.

individual stores (or districts). In the case of chains where little fluctuation in sales occurs because of business conditions generally the sales estimate will be largely a statistical compilation based on past experience. In other cases predictions of general conditions may advisedly be included.

Figure 70 illustrates the purchase budget used by the National Shirt Shops to control its stocks and provide for future require-

¹ The principles and practices of budget making will be found treated in special books on the subject.

ments. This purchase budget is prepared every 6-months, particular care being taken in holiday seasons. To check the budget, an analysis of sales is made every 60 days and modifications made accordingly in the budget, if an unforeseen trend arises.

A certain percentage of the year's orders are left open to take advantage of bargains, but the majority of the items are staple and are ordered a number of months ahead. Shirts, for example, are bought from 6 months to 1 year ahead, underwear 4 to 6 months, hosiery 2 to 4 months, while neckwear is handled on a hand-to-mouth basis, due to rapid changes in style.

This particular chain wants to secure a minimum turnover of eight times per year for all goods. This turnover varies, of course, with the particular store and the type of merchandise, but the average will be eight turnovers. Suppose, for example, that, on a basis of a stock turn of seven times, and an estimated business of \$100,000, then a basic stock of \$14,500 is required. To subdivide further, if 20 per cent of the business is in neckwear—and neckwear turns nine times a year—then the stock in neckwear must average \$2,200. This particular chain excludes the December holiday business from its budget, because the holiday business lasts only 2 weeks and presents special problems not encountered at any other season.¹

Chains handling staple articles, particularly nationally branded goods, normally can secure delivery on comparatively short notice and, unless there is some special discount to be obtained by placing orders at one time, there is no particular advantage in maintaining a large supply in warehouse.

The Warehouse System.—Practically every chain assumes the storage function.² All goods purchased must ordinarily be stored at some point or points. The usual system is to store goods at central locations preparatory to being distributed to various retail outlets. If units are far apart it may be advisable to ship direct to each store. Variety stores, for example, often

¹ For an interesting account of the application of the budget to sales control, see *Chain Store Age*, August, 1926, article by F. A. Sarg, "How We Plan our Business a Year Ahead."

² Exceptions may be noted. When a grocery chain on the Pacific coast could not buy direct from manufacturers, there was little advantage to be gained by warehousing.

carry large surplus stocks. Ordinarily, in the grocery chain the warehouse is the focal center of the distributing system.

Warehouses are in charge of an experienced warehouseman who sees to it that supplies are received, that lots are broken when necessary, graded, assembled, and shipped at appointed times or as soon after orders are received as possible.

Warehouses operate on a maximum and minimum basis, inventory being kept by a modification or amplification of any one of the methods indicated elsewhere in the chapter. On the accuracy of these inventories and the manner in which they are kept, not only does the efficiency of the purchasing depend, but also the ability to fill orders promptly as they come in from branch stores.

Some chains find that a warehouse of its own is economical even though stores are widely separated from it. For example, the J. C. Penney Company figures that its warehouse system saves approximately 8 per cent on every dollar's worth of merchandise purchased. The ordinary advantages of the warehouse may be tabulated as follows:

1. Maintains adequate and fresh stock of goods on hand at all times for immediate delivery to member stores.

2. Fills and ships orders from stores at maximum speed and with maximum accuracy.

3. Allowing stores to keep small volume of stock on hand, permits much larger turnover of stock.

4. Breaks up, and assembles manufacturers' goods more economically than jobber.

The Warehouse Location.—There is a right place and a wrong place, to locate the warehouse, as there is for the retail store. But the problem varies much more in relation to the individual peculiarities of the chain. There are some general rules in this as in the other phases of chain store operation.

1. The warehouse should form the hub of the chain circle. That is, a chain is not really a chain in the sense that each branch store forms a link. It is more like a wheel with the warehouse at the center. This holds true whether the chain is national or local. A chain organized in the East may have to have warehouses in San Francisco, Denver, Omaha, Minneapolis, Kansas City, New Orleans, Chicago, Atlanta, Detroit, Cincinnati,

Cleveland, Buffalo, and Baltimore, as well as in New York and Philadelphia. In other words, there is a series of wheels scattered over the country. If the chain is local, the warehouse should be located as nearly as possible in the center of the member stores. This saves time and expense in deliveries to member stores.

2. A chain warehouse should be located with an eye to the future. Where are the new stores going to be? Which way is population growing? These are only two of the many questions which, in consideration, form a complex problem in commercial research.

3. The warehouse must be located, if possible, on a railroad siding, so that goods can be transferred directly from cars to the warehouse.

4. The warehouse can be located to suit its own convenience and with a view to reducing overhead. It can be located, in other words, where rent is cheap. It must, however, be easy of access by road, so that trucks will meet no interference in going to and fro.

The Size of the Warehouse.—The best plan in building a warehouse is to have a building large enough for all immediate needs and for those of the near future, and to have it designed so that additions may be made inexpensively and rapidly. This plan will avoid waste and, at the same time, provide for future developments. If possible, the experience of the chain described here should be avoided.

The warehouse of the company in question, when built 10 years ago, was much too large, but at present it is too small. Consequently, various lines of canned goods have to be stored in the basements of some of the larger stores. This, as may be readily seen, causes extra trouble. It is necessary to keep a storage record of these lots, and whenever anything is removed from any store basement a requisition has to be filled out in the office and then given to the truck driver who is to get the goods, and the store manager has to check the goods and O.K. the requisition. Some goods, such as canned peas, may be left untouched until spring, when the carload that was put into the main warehouse has been sold. Then the stores begin to draw from the basements, a hundred cases at a time.

It is a question whether the extra trouble involved in finding extra storage space does not offset, in great measure, the economies effected by buying goods ahead in large quantities.

Of course, the size of the warehouse depends a great deal on the goods sold by the chain and the number of stores supplied. A grocery warehouse would have to be much larger than a shoe warehouse or a haberdashery warehouse, and much more specialized in the first and the last case.

Arrangement of Stock in Warehouse.—There are several methods of arranging stock—according to frequency of demand, according to weight and according to group classification. The warehouse superintendent must determine the method according to the nature of the product. It would be advisable to heed the following hints:

1. Do not overcrowd the goods. They must be easy of access both for counting—as is necessary when goods are repriced and also at other stated intervals—and for making additions to or removals from stock.

2. Old goods should be in the front, so that they may be used up first, thus insuring a fresh supply of goods at all times.

3. Heavy goods should be as near as possible to the place of loading, so as to save effort in moving.

4. Each article stocked should have a regular place, so that all confusion may be avoided.

5. Goods must be checked on arriving and on leaving. Therefore, the checking desk should be near the loading platform. Where warehouses contain several floors, checking is done separately for each floor.

Orderly arrangement and efficient handling of stock will reduce overhead and carrying charges, and also guard against confusion in filling orders and in speeding up operations generally.

The Warehouse Manager.—The man in charge of the warehouse may be a rather important individual, or he may be a mere subordinate of the purchasing agent. In the smaller chains, the purchasing agent has his office in the warehouse, and the control of warehousing problems is placed directly in his hands.

But where the warehouse is located at a distance, the warehouse manager has much responsibility. He must see that his

stocks are kept up to date, and in sufficient reserve to fill all ordinary requirements. He must see that the central purchasing office is informed daily of the exact book inventory of the business, and that orders for branch stores are filled promptly. It may be that some of the buying is done from the branch warehouse—for example, for staple goods, where the only saving comes from quantity purchases.

The warehouse manager is responsible for checking goods as they come in and as they go out. His system should be so planned that it would be practically impossible for employees to destroy or break open goods without the knowledge of the auditing department. He is also, of course, in charge of the warehouse personnel—porters, checking clerks, billing clerks, and probably the delivery personnel, truck drivers and helpers.

Filling Requisitions.—When an order comes to the warehouse, it must be filled as quickly as possible and with absolute accuracy. The man performing this task must have complete knowledge of the stock, the sizes, the code numbers and the prices. It is easy to imagine how accurate his knowledge must be in warehouses stocking a great variety of articles. In some cases it may be desirable to have the order pass through several departments, in each of which a special clerk picks out the goods.

In one haberdashery chain, a special conveyor on wheels is used, which has been designed to carry the merchandise to and from all parts of the wareroom. It eliminates the repeated handling of the goods, allows the order from one store to be filled at one time, and prevents any confusion with goods ordered for other stores. These conveyors are wheeled to the charge desk, where goods are packed for shipment to the stores. In this chain, after a shipment is charged and rechecked, it is passed along to a marker, who weighs, addresses, and makes out whatever receipts are necessary, as bills of lading and express receipts, while in other chains it might simply be a driver's receipt. In this haberdashery chain, a billing clerk decides what case should be used for each shipment. Using a case too large for the shipments sometimes make a difference of 40 cents in transportation charges.

Requisition Blanks and Price Codes.—Requisition blanks may, if desired, be designed according to the arrangement of

stock in the warehouse, to make it easier to fill orders. It is most important, however, that they be so simple as to avoid all possibility of misconstruction. The requisition blank on which the store manager merely lists what he wants is not ordinarily efficient.

If the warehouse is divided into several distinct departments, the store manager should be instructed to make individual orders on each department of the central organization from which he is ordering supplies. This question is treated at length in a later chapter. It is only desired to show here that a simple fool-proof requisition blank is important from the warehouse end of the business.

Some chains find it desirable to use codes for simplicity in ordering. Where there is a great variety of stock, or where there is an arrangement according to departments, this practice has much to recommend it. The following is a description of a code used in a men's furnishing chain:

The code book is divided into sixteen departments, numbered consecutively from 1 to 16. The derivation of the sequence of these numbers is the order in which they appear across the top of the daily report—that is, silk shirts, department No. 1; cotton shirts, department No. 2. In making up a number for an article, the first part of the number is the number of the department in which the article belongs, the second is an initial or two initials designating the article, and, if there is more than one price for an article having the same initial, it is designated by a numeral following the initial. That is, "1" indicates first price, "2" second price. As an example, take knitted neckwear. Neckwear is department No. 3. "K" is used to indicate "knitted" and "1-2-3-4," etc. to carry the price. In this case "1" means 50 cents, "2" means 65 cents, "3," \$1, and "4," \$1.50, and it follows that knitted neckwear selling at \$1.50 will be coded simply "3K4."

It goes without saying that code variations are unlimited. Convenience and efficiency should be the sole criteria in determining the use of such a short cut to ordering.

Warehouse Stock Control.—No matter what the type of chain may be, it is essential that at all times the amount of stock in the warehouse should be known, and, furthermore, that there should be some method of telling when stock is getting

low so that reorders may be placed. To meet this need, a great number of systems have been devised to suit the individual cases, all based around some form of inventory. On the efficiency of this inventory system will depend, in great measure, the efficiency of the buying organization.

One simple method of keeping inventory is by means of the stock-record card, a system which is suitable for a wide variety of chains. Cards may vary in size from 3 by 5 inches to 5 by 8 inches, according to the nature of the information which it is desired to include. Ordinarily, a separate card is used for each

STOCK RECORD BOOK
1924

Article	January		February		March		April		May	
	Date	Am't	Date	Am't	Date	Am't	Date	Am't	Date	Am't
Amolin 2-oz.	1	450	1	153						
	8	137								
		323								
	10	500								
		823								
	16	320								
		503								
	28	200								
		303								
	31	150								
		153								

FIG. 71.—Page from a stock record book used for keeping inventory in drug chain warehouse.

item. At the top of the card is listed the article, the manufacturer, and any other general information necessary. The body of the card is arranged as in the illustration, although any additional information desired may be added in extra columns. It is most important in all cases that these stock record cards be kept up to date, and therefore a special clerk should be delegated to enter receipts and withdrawals on the card.

Some drug chains, handling from 60,000 to 90,000 articles, keep a book account for each article. Suppose this book is opened at random at the statement for Amolin, 2-ounce size. The page would appear as in Fig. 71.

On the first of January there were 450 bottles on hand. On the eighth of January 137 bottles were withdrawn for distribution to retail outlets, leaving 323 in stock. On the tenth an order of 500 bottles came in, bringing the stock up to 823 bottles. On the sixteenth, the twenty-eighth, and the thirty-first there were withdrawals, leaving the stock on hand at the end of the month, according to the book balance, 153 bottles.

At the end of each month a physical inventory is taken. In this case the physical inventory corresponded with the book inventory, for there were, by actual count, 153 bottles on hand in the warehouse on February first. Since there were 450 bottles in stock the first of January, and 500 bottles added during the month, sales for the month are obtained by subtracting the inventory for the first of February, that is, 153 from 950, leaving the total sales of Amolin for the month of January at 797.

Supplies are ordered, as mentioned before, in accordance with a maximum and minimum scale, that is, an amount is determined under which it is inadvisable to go. In the same way, a maximum amount is determined. These warehouse maximums and minimums are constantly varying as the chain adds more units, or as seasonal variations affect sales of various products.

A Special System.—Because of the special features which it contains and its adaptability to a chain warehouse holding any kind of product, a brief description of an inventory system patented by Carl O. Williams, of the Acme Cash Basket Stores, Akron, Ohio, is given. This system includes the following features:

1. It allows one man to keep stock for an entire warehouse representing about 1,200 to 1,500 items.
2. The management can know by 5 p.m. each evening just how much stock is left of any and all items.
3. No matter how many orders go out during the day, only one entry is made in the stock record book. This saves time and work in fingering the pages, saves paper, and avoids the danger of error. Since but one entry and one subtraction are made daily, there is less chance of error than if 30 or 50 entries and subtractions were made. In spite of the apparently many duties of the stock clerk, he has no need of hurrying or rushing through his work.

Briefly, there is a stock record book for each floor of the warehouse. On each floor is an arrangement like a postoffice file, containing as many pigeonholes as there are items on the floor. These holes are narrow, about $\frac{5}{8}$ inch being wide enough. They are arranged in the same alphabetical order as the pages in the stock record book.

Figure 72 shows a page from the stock record book, arranged for a grocery warehouse. The arrangement can be altered to suit any type of business which requires a warehouse. Entries are made on this page but once daily, as will be explained.

All outgoing orders are recorded by the stock record clerk. Suppose he sent out

- 1 case Capstan Peas.
- 3 20-ounce mop heads.
- $\frac{1}{2}$ barrel glucose.
- 20 pounds lentils.

He picks up a "one-case" card and slides it into the slot under "Capstan Peas." There is a card of another color for "1" or "2" of any special item, and he inserts the color card for "3" in the 20-ounce mop-head slot. A similar card with a "1" on it goes into the $\frac{1}{2}$ -barrel glucose slot. There is another color for "pounds," and the lentils are taken care of by a card of that color bearing the number 20.

At the close of the day the stock clerk runs through his file of cards for the day. In the Capstan Pea slot, for example, are a number of colored cards which total $24\frac{1}{2}$ dozen cases for the day. The clerk turns to the Capstan Pea page and records $24\frac{1}{2}$ dozen cases, subtracting this from the total in stock and bringing down the balance.

The stock clerk notifies the buyer when any item in stock is nearing the minimum. He makes up a little card containing the following information:

- Name of item.
- From whom purchased.
- Date and amount of last purchase.
- Price of last purchase.
- Average monthly consumption.
- Stock on hand.

Every day the stock clerk verifies about ten items on one floor of the warehouse and corrects the figures in the book. A perpetual inventory needs constant checking, no matter how good it is, as mistakes are bound to occur.

[illegible]

FIG. 73.—The three tags used in connection with the Hartman stock record on which all purchases and withdrawals are recorded.

A Furniture Chain System.—The Hartman Corporation, operating 17 furniture stores, 12 of which are in Chicago, has one centrally located warehouse. Due to the nature of the goods carried, the warehouse inventory system used by this chain is of

especial interest.¹ The stock system is run on a dual-control plan, stock records being available both at the merchandising office and at the warehouse. The only difference is that the merchandising office carries the stock-record control, while the warehouse supplies the physical stock count. A visible stock card record is used, showing, as customary, the purchase of merchandise, date of arrival at warehouse, subsequent reductions of stock, price, terms, and other information which seems fitting. Every kind and style of furniture is given a number, which is also entered on the card (see Fig. 73). Reorders are also entered as soon as purchase order copies have been received from the merchandising office.

Since there are so many cards to keep track of that it is difficult to determine what items are running low, a tag system has been invented. All merchandise checked into the warehouse is recorded on tags. If there are 20 day beds, then 20 tags are made out. In cases where large shipments are received of goods which are just alike, a master tag may be made out to cover the major portion of them, and unit tags made out for the remainder. This master tag is of a different color from the unit tags and is replaced later by unit tags.

These tags are filed in racks, much like railroad tickets and thus form a physical inventory of all goods in stock. Whenever any furniture is shipped out to member stores, tags are affixed, the number remaining in the rack always showing the number on hand in the warehouse.

Another feature of the system is the exhaust card, colored bright yellow, which forms an automatic low-stock alarm. It is placed in the stack of cards at the point when it is considered a reorder should be made, and whenever a clerk comes to this tag he hands it in to the office for reorder.

A weekly stock report is made up from an actual count of tags, and this report is sent to all stores and often forms the basis for special sales efforts.

Store Stock Control.—The stock-control system must be extended to the individual stores as well as to the warehouse. To keep a perpetual inventory of each store would be too expensive and otherwise impracticable for the average chain. Conse-

¹ For more complete account see *Chain Store Age*, April, 1927.

Register No.	TIMES SQUARE AUTO SUPPLY CO., INC.		B 9600
	BRANCH MERCHANDISE ORDER FOR WAREHOUSE		
From Branch No.	At	Date	
Picked by		Date Shipped	
Checked by		Shipped Via	
Packed by	CONFINE DESCRIPTIONS WITHIN THEIR PROPER COLUMNS		

Quan on hand	Unit Quan wasted	Quan shipped	Catalogue No.	DESCRIPTION	Unit Price	TOTAL

Extended and Totaled by	Re-checked by
	SIGNED
	Manager's Signature
TO BE SIGNED AT HOME OFFICE	

NO. _____																			
DESCRIPTION _____										COST No. _____					S. P. _____				
BRANCH	ORDER NO.	DATE	QUAN	SHIPPED	PURCH ORDER NO.	DATE	QUAN PURCH	BRANCH	ORDER NO.	DATE	QUAN	SHIPPED	PURCH ORDER NO.	DATE	QUAN PURCH.				

Place in Separate Envelope and mark Purchase Dep't. Lost Sales Record	
TIMES SQUARE AUTO SUPPLY CO., Inc.	
Branch	19
SALE LOST THIS DAY BECAUSE OF GOODS NOT BEING IN STOCK	
<u>If sales was lost because our price was too high, state and give competitors price.</u>	

Manager must sign here A sheet must be sent every day whether sales were lost or not If goods called for are in local demand mark letter "L" along side of them.

FIG. 74.—Lost sales sheet.

quently, the usual practice is to take physical inventories at certain times. This may be an expensive process if the unit store is large. It cost the Liggett Company about \$100 per store to take inventory in 1920, but this was reduced to \$75 by 1925, mainly due to greater standardization of store stocks and greater efficiency of employees. Stock taking in a grocery unit may be a comparatively simple matter.

One interesting method of keeping track of store stocks is used by the Times Square Auto Supply Company, Inc., which has an average stock of 7,000 items in its stores. By using the following method, illustrated in Fig. 74, stores are never out of more than 2 per cent of the total number of items stocked.

When a new store is started, a complete stock, based on experience, is sent to it. This stock forms the basis of resulting requisitions, since to each item is given a maximum and a minimum quantity. When the manager wants to send in an order, he uses the blank in Section A of Fig. 74. He makes this out in triplicate, keeping one copy, and sending two to the warehouse. In each case the manager must put down the number of items in stock at the time of sending the order.

The merchandise manager goes over all orders and corrects them if he thinks they are wrong in any particular. The requisition is then handed to the warehouse selectors. If warehouse stock is out, the back order card shown in Section B is used. Section C shows the lost sales report filed daily by store managers, showing the condition of stock in the store and also what customers are asking for but which is not kept in stock. For example, it was found that customers of out-of-town stores demanded garden hose which was, accordingly, stocked and sold in large quantities. In order to see that managers are complying with the system, supervisors call at stores, ask for recent order sheets, and check up these with actual stock on the shelves.

Whenever price changes are at hand, partial inventories are made of stock to be offered at the new price.

One of the dangers of having inventories made by local store managers is the possibility of dishonesty. The Western Piggly Wiggly Company of Spokane, Wash., has prepared a Certificate of Inventory, shown in Fig. 75, which each store manager is required to sign when he takes inventory. This has been found

to have an excellent moral effect, improvement being shown almost immediately.

Certificate of Inventory

This is to Certify that I have taken inventory of the merchandise contained in Western Piggly Wiggly Store No. located at, and that the various articles and commodities set forth were in my custody on the day of, 19....., and I further agree that I will account to the company for all cash received for articles or commodities or cash which may come into my possession, it being understood that at any time I surrender to a successor the possession of the merchandise and cash contained in the aforesaid store, that an inventory be taken and my successor required to certify to the inventory.

IT IS ALSO UNDERSTOOD that if the percentage of gross profit on sales except in case of fire or proven theft of someone other than myself, of the above mentioned store is less than the average made by all other stores in the unit in which my store is included that in such event it may be considered and deemed that I am responsible for a shortage in the inventory and the difference which this store has made below the average of all other stores in the unit may be charged to my account, which I agree to pay

FIG. 75.

Other Stock Systems.—The methods for stock control in unit stores employed by R. H. Seidenberg Company, operating 17 cigar stores and stands, show how 1,500 items can be recorded. In addition to tobacco goods, this chain handles magazines, candy, shaving cream, and smokers' accessories. Figure 76 shows the forms used: No. 4 illustrates the daily report sent to the home office, showing the reading of the cash register; No. 5 shows a page from the monthly inventory and sales analysis report used to keep check on stock, and showing what lines move rapidly. A printed inventory is used, 65 pages in length, page size $9\frac{1}{2}$ by 14 inches, 22 items to a page. In the spaces are set down for each item the quantity on hand at the store stock room, the quantity in the wall case, the quantity in the show case, and, lastly, the quantity on top of the counter.

Number 5 is the monthly sales analysis, made up from the inventory for home-office use. It has been found that store managers are more careful since they know this analysis is being made. If their inventory and the sales analysis do not agree, they are called upon to explain discrepancies.

Number 2 illustrates the stock cards, 6 by 9 inches in size, employed at the warehouse. At the top is the name of the manufacturer of the product, while below is space for minimum and maximum allowances, name of brand, size, and packing. There are also columns for date, order record number, quantity received, shipping number used in reshipping to retail units, name of branch to which stock disbursement is made, quantity disbursed,

1. R. J. SEIDENBERG CO. DAILY REPORT FOR CASH IN HAND

NAME: _____ ADDRESS: _____

DATE: _____ ORDER NO.: _____ QUANTITY RECEIVED: _____

SHIPPING NO.: _____ NAME OF BRANCH: _____ QUANTITY DISBURSED: _____

2. R. J. SEIDENBERG CO. STOCK CARD

MANUFACTURER: _____ BRAND: _____ SIZE: _____ PACKING: _____

DATE: _____ ORDER NO.: _____ QUANTITY RECEIVED: _____

SHIPPING NO.: _____ NAME OF BRANCH: _____ QUANTITY DISBURSED: _____

3. R. J. SEIDENBERG CO. ORDER CARD

NAME: _____ ADDRESS: _____

DATE: _____ ORDER NO.: _____ QUANTITY RECEIVED: _____

SHIPPING NO.: _____ NAME OF BRANCH: _____ QUANTITY DISBURSED: _____

4. R. J. SEIDENBERG CO. CASH RECEIPT

NAME: _____ ADDRESS: _____

DATE: _____ ORDER NO.: _____ QUANTITY RECEIVED: _____

SHIPPING NO.: _____ NAME OF BRANCH: _____ QUANTITY DISBURSED: _____

5. R. J. SEIDENBERG CO. SALES ANALYSIS

MONTH ENDED: _____

SALES: _____

CHARGES DURING MONTH AND TOTAL: _____

6. R. J. SEIDENBERG CO. INVENTORY

NAME: _____ ADDRESS: _____

DATE: _____ ORDER NO.: _____ QUANTITY RECEIVED: _____

SHIPPING NO.: _____ NAME OF BRANCH: _____ QUANTITY DISBURSED: _____

FIG. 76.—The daily report furnished the president of the company.

and balance on hand. When the balance on hand reaches the minimum, reordering is automatic.

Number 3 shows the card on which orders are entered. Managers of unit stores are supposed to place orders twice a month. If it becomes necessary to order more often, then the maximum limits to that unit are raised.

Number 1 is the daily report made out for the management. The top portion covers the financial condition, such as cash in

banks. The lower half is given over to purchases and sales, the latter tabulated according to the unit stores.

Physical Inventories.—Practically every chain will find it desirable to take a physical count of stock on hand at certain times. To avoid confusion and to ensure an accurate count, it is necessary to have a method of procedure and a system of checking the count. The problem varies, of course, with the size of the stock to be counted. The Hartman Corporation uses the following method for its 17 furniture stores.

Tags are made up, consisting of three parts, each bearing the same number and a letter signifying in what inventory (year and season) the card is to be used. The upper stub has an eyelet for fastening, and contains only the letter and number. The middle stub has all detailed information, while the lower contains only the most important information as to quantity and cost (see Fig. 77).

Advance notice is given to the stores that inventory is to be taken so that preparations may be made. Twenty-seven inventory supervisors are appointed and given some schooling in methods. Each supervisor is in charge of the inventory of the department where he has regularly been employed.

All merchandise is price tagged, and this information is copied from the price tag to the inventory card, which is then attached to the merchandise and, at the same time, the lower stub is removed and turned in to the comptroller's office. At the end of the day, the middle portion of the stub is also torn off and given to supervisors, the upper stub remaining on the merchandise sold during inventory or to check mistakes.

Stubs are then sorted numerically and entered on inventory sheets, as shown in Fig. 78, which are made as complete as possible. Each inventory sheet tabulates 35 cards. Large articles are inventories by the piece, small ones by bins or tables.

Hartman's INVENTORY		No. B 1003	
2497			
DEPT.		No. B 1008	
Store _____		Section _____	
Floor _____		Factory No. _____ Article No. _____	
Article _____		Upholstery _____	
Size _____		Finish _____	
Quantity _____		Present Code _____	
MKT Code _____		Selling Price _____	
2497			
Quantity _____		No. B 1008	
Present Code _____		Article _____	
2497			

FIG. 77.

SERIAL No 15423

INVENTORY

HARTMAN FURNITURE & CARPET CO.

Date _____ Store _____ Dept. No. _____ Line of Mde. _____

1. Sheet Written by _____ Check _____

2. Entries Checked by _____ Check _____

3. Quantities Correct (Approximately) _____

4. Code or Cost Correct (Approximately) _____

5. Tags Extended by _____ Check _____

6. Sheets Extended by _____ Check _____

7. Extensions Compared _____ Check _____

8. Gen'l Approval _____

9. 99 Cost of This Entire Page is Figured on Basis of
 A 1-CODE ☐ 2-LANDED COST ☐ Check Which is Used.

INVENTORY TAG NUMBER (1)	PLACEMENT NUMBER (2)	ARTICLE NUMBER (3)	SIZE AND FINISH (4)	DESCRIPTION OF ARTICLE (5)	QUANTITY (7)	UNIT OF MEASURE (WHOLE PIECE OR FRACTION THEREOF) (8)	COST (WHOLE PRICE AT PRESENT) (9)	UNIT OF MEASURE (WHOLE PIECE OR FRACTION THEREOF) (10)	MARKET VALUE (11)	EXTENSION AT COST (12)	EXTENSION AT MARKET (13)	AMOUNT MARKET LOSS (14)
					1							
					32							
					34							
					35							

— DONT WRITE IN THESE COLUMNS —

Use No. 2 Pencil.
 Use Good Carbon
 Write Plainly.
 Don't Erase.
 Don't Destroy a Sheet.

COST TOTAL PAGE _____ TOTAL MARKET LOSS _____

LESS MARKET LOSS _____

NET (LESS OR COST OF MARKET) _____

Fig. 78.—Inventory sheet used by the Hartman Corporation, Chicago.

It was found that by having clerks put cards on merchandise during spare time, the actual work of inventorying 300,000 cards was done in 2 hours after the store had closed.

Stock Inspection.—Some chains find that stocks shift so rapidly, due to volume of selling, that stock keeping becomes very difficult and inventory systems not easy to maintain. For example, the Owl Drug Company stocks in its stores an average of 3,000 items. Until it had installed a system of

Page 4

MANICURE PREPARATIONS DENTIFRICES COMPLEXION CREAMS PERFUMES		LIP STICKS ROUGES POWDER TALCUMS		TOILET ARTICLES —(Continued)—		HAIR TONICS HAIR DYES DEPILATORIES STEINS MISCE.		VASELINES SOAPS DYES CLEANERS					
In answering questions use the term YES or NO. Where additional information is required, use the material, opposite the question and show information in space provided for remarks.													
QUESTION		Jan	Feb	Mar	Apr	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
42	Are Pina's Faller's Earth and Zinc Sulfate stocked near talcums?	1925											
		1926											
43	Is a separate house provided for white and flesh shades of talcum?	1925											
		1926											
HAIR TONICS—HAIR DYES		1925											
		1926											
44	Are hair tonics stocked separate from dyes?	1925											
		1926											
45	Are shampoos and tone sands stocked nearby?	1925											
		1926											
DEPILATORIES—BRILLIANTINES—BANDOLINES		1925											
		1926											
46	Is a safety razor stocked in the department?	1925											
		1926											
47	Are brilliantines grouped together?	1925											
		1926											
48	Are retail prices marked with sticker on brilliantines and bandolines?	1925											
		1926											
STEIN AND OTHER MAKE-UP PREPARATIONS		1925											
		1926											
49	Are tin make-up boxes stocked nearby?	1925											
		1926											
50	Is there a chart showing number and color of liners and grease paints?	1925											
		1926											
51	Are powder puffs stocked near theatrical make-up?	1925											
		1926											
VASELINES		1925											
		1926											
52	Is there a separate house for Vaseline for, square and in tubes?	1925											
		1926											
53	Are vaselines located away from heat?	1925											
		1926											
Remarks:													

FIG. 79.—A typical page from the loose-leaf binder which represents the inspection book used by the Owl Drug Co.

inspection it found that stock was not being kept up correctly. The rule book was not being observed, and the training methods not held to.

The company then installed a system of inspection. An inspection book is prepared for 30 printed pages, 15 subdivisions, and under each subdivision 25 questions. Figure 79 illustrates the appearance of a page. The actual inspections are made by store managers who do not know in advance to what store they will be sent. One copy of the inspection goes to the manager of the store and one to the supervisor. Not only the actual con-

dition of the inventory is considered, but the manner of arranging the stock; and, particularly, note is made of whether the store is observing the standard practice set forth in the rule book. This company has found that using store managers for inspection has worked well.

The Delivery System.—The problem of distributing goods to stores resolves itself into a number of problems. In the first place, there is the question of whether the chain shall own its own delivery equipment. Under normal conditions it has been found more satisfactory to adopt this policy. If, however, there are not enough stores in the chain to keep trucks busy, it may be done on a contract basis. The Tom Good Stores of Cleveland, Ohio, with 10 units, employs a contractor at \$75 weekly to take care of its deliveries.

Whether delivery shall be made by truck, rail, or horse, or by a combination of methods is largely a question of cost, although it will be affected by the type of chain, length of units from warehouse and from each other, and frequency of deliveries required. The majority of chains use motor trucks. The Sheffield Farms Company, which has 325 stores within a radius of 25 miles of its warehouse employs six 7½-ton trucks and one team and wagon to make deliveries twice a week. The team takes the deliveries contiguous to the warehouse.

Direct delivery is customary for fruits, vegetables, and baked goods.

The frequency of deliveries to stores depends on the turnover in the store, plus the storage capacity in that store. This will naturally vary among the several chain units. Some will require replenishing of stocks more often than others. It is customary in some chains to supply outlying stores once a week and the rest twice a week.

Deliveries must be carefully routed, so that trucks may run on schedule. Some chains have found, by using a demountable truck body, that a load may always be ready for the returning motor trucks, and in this way stopping time has been cut down to 15 minutes, thus ensuring a maximum earning capacity for the trucks. If the loading space is small, the time schedule must be arranged so that trucks come for loading in sequence rather than all together. Particularly where the same platform

must serve for incoming as well as outgoing merchandise, a time schedule is of great importance.

In laying out routes, it is often desirable to have the last stores on one route overlap the first stores on another route so that if the last stores have to be left off one truck, they can be put on the next truck.

Whenever new stores are added rerouting will be necessary, but this does not always entail the necessity for new delivery equipment, unless the distances are greatly increased.

A Delivery System.—The basis of the delivery system is the order sheet sent in by store managers. This can either be mailed in or it can be forwarded by drivers when the previous order is delivered. In some cases district managers may tend to the reorders. Figure 80 shows a form of order sheet used to order from warehouse. In every case the order sheet should be printed, and it is advisable to classify merchandise to correspond with the divisions of the warehouse. In some chains the order of goods in store and warehouse is identical so that the manager starts at one end of his store and goes around in logical order and when his requisition is filled the selector can pick out the goods with a minimum of confusion from the warehouse. As often as enough new items appear to warrant, the order sheet should be reprinted. The manager fills in the sheet with quantities desired of any article, and sends it to the warehouse long enough in advance to secure his goods on the next delivery.¹

When the requisition reaches the warehouse it is given to the selector or assembler who gathers together the goods on a warehouse truck, marking a check opposite each article picked out on the order blank under column four. He also marks the package with the number of the store which has ordered it, and crosses off the item if it is not in stock. When packages must be broken, the form shown in Fig. 81 is used.

When all the goods for one store have been assembled, the process of checking the order takes place. One man calls out the name and number of articles upon trucks to the man holding the order sheet. He double checks in column four, and at this time errors in selecting are corrected. After the item checking,

¹ For full description of this delivery system see *Chain Store Age*, June, 1925.

the number of items on the trucks is counted by one man, while the other counts the number checked. If the two agree, the checker initials the order.

Form 323 May 18, 1920										Section 1										WAREHOUSE USE										STORE USE																			
Store (Use Customer Name)										Manager's Name										Manager Sign Here										Day of Week										Date									
Date Order Made Out										Name										Day of Week										Date																			
No. _____										WAREHOUSE USE THESE SPACES FILL IN ON BOTH WHITE & YELLOW SHEETS										Day of Week										Date																			
Pieces _____										CHECKED BY _____										Day of Week										Date																			
This _____										STREET ADD _____										Day of Week										Date																			
Order _____										TOTAL PCS. _____										Day of Week										Date																			
1										2										3										4																			
5										6										7										8																			
9										10										11										12																			
13										14										15										16																			
17										18										19										20																			
21										22										23										24																			
25										26										27										28																			
29										30										31										32																			
33										34										35										36																			
37										38										39										40																			
41										42										43										44																			
45										46										47										48																			
49										50										51										52																			
53										54										55										56																			
57										58										59										60																			
61										62										63										64																			
65										66										67										68																			
69										70										71										72																			
73										74										75										76																			
77										78										79										80																			
81										82										83										84																			
85										86										87										88																			
89										90										91										92																			
93										94										95										96																			
97										98										99										100																			
101										102										103										104																			
105										106										107										108																			
109										110										111										112																			
113										114										115										116																			
117										118										119										120																			
121										122										123										124																			
125										126										127										128																			
129										130										131										132																			
133										134										135										136																			
137										138										139										140																			
141										142										143										144																			
145										146										147										148																			
149										150										151										152																			
153										154										155										156																			
157										158										159										160																			
161										162										163										164																			
165										166										167										168																			
169										170										171										172																			
173										174										175										176																			
177										178										179										180																			
181										182										183										184																			
185										186										187										188																			
189										190										191										192																			
193										194										195										196																			
197										198										199										200																			
201										202										203										204																			
205										206										207										208																			
209										210										211										212																			
213										214										215										216																			
217										218										219										220																			
221										222										223										224																			
225										226										227										228																			
229										230										231										232																			
233										234										235										236																			
237										238										239										240																			
241										242										243										244																			
245										246										247										248																			
249										250										251										252																			
253										254										255										256																			
257										258										259										260																			
261										262										263										264																			
265										266										267										268																			
269										270										271										272																			
273										274										275										276																			
277										278										279										280																			
281										282										283										284																			
285										286										287										288																			
289										290										291										292																			
293										294										295										296																			
297										298										299										300																			
301										302										303										304																			
305										306										307										308																			
309										310										311										312																			
313										314										315										316																			
317										318										319										320																			
321										322										323										324																			
325										326										327										328																			
329										330										331										332																			
333										334										335										336																			
337										338										339										340																			
341										342										343										344																			
345										346										347										348																			
349										350										351										352																			
353										354										355										356																			
357										358										359										360																			
361										362										363										364																			
365										366										367										368																			
369										370										371										372																			
373										374										375										376																			
377										378										379										380																			
381										382										383										384																			
385										386										387										388																			
389										390										391										392																			
393										394										395										396																			
397										398										399										400																			
401										402										403										404																			
405										406										407										408																			
409										410										411										412																			
413										414										415										416																			
417										418										419										420																			
421										422										423										424																			
425										426										427										428																			
429										430										431										432																			
433										434										435										436																			
437										438										439										440																			
441										442										443										444																			
445										446										447										448																			
449										450										451										452																			
453										454										455										456																			
457										458										459										460																			
461										462										463										464																			
465										466										467										468																			
469										470										471										472																			
473										474										475										476																			
477										478										479										480																			
481										482										483										484																			
485										486										487										488																			
489										490										491										492																			
493										494										495										496																			
497										498										499										500																			
501										502										503										504																			
505										506										507										508																			
509										510										511										512																			
513										514										515										516																			
517										518										519										520																			
521										522										523										524																			
525										526										527										528																			
529										530										531										532																			
533										534										535										536																			
537										538										539										540																			
541										542										543										544																			
545										546										547										548																			
549										550										551										552																			
553										554										555										556																			
557										558										559										560																			
561										562										563										564																			
565										566										567										568																			
569										570										571										572																			
573										574										575										576																			
577										578										579										580																			
581										582										583										584																			
585										586										587										588																			
589										590										591										592																			
593										594										595										596																			
597										598										599										600																			
601										602										603										604																			
605										606										607										608																			
609										610										611										612																			
613										614										615										616																			
617										618										619										620																			
621										622										623										624																			
625										626										627										628																			
629										630										631										632																			
633										634										635										636																			
637										638										639										640																			
641										642										643										644																			
645										646										647										648																			
649										650										651										652																			
653										654										655										656																			
657										658										659										660																			
661										662										663										664																			
665										666										667										668																			
669										670										671										672																			
673										674										675										676																			
677										678										679										680																			
681										682										683										684																			
685										686										687										688																			
689										690										691										692																			
693										694										695										696																			
697										698										699										700																			
701										702										703										704																			
705										706										707										708																			
709										710										711										712																			
713										714										715										716																			
717										718										719										720																			
721										722										723										724																			
725										726										727										728																			
729										730										731										732																			
733										734										735										736																			
737										738										739										740																			
741										742										743										744																			
745										746										747										748																			
749										750										751										752																			
753										754										755										756																			
757										758										759										760																			
761										762										763										764																			
765										766										767										768																			
769										770										771										772																			
773										774										775										776																			
777										778										779										780																			
781										782										783										784																			
785										786										787										788																			
789										790										791										792																			
793										794										795										796																			
797										798										799										800																			
801										802										803										804																			
805																																																	

BROKEN PACKAGE DEPARTMENT											
INSTRUCTIONS FOR ORDERING BROKEN PACKAGES.—Do not order more than 6 weeks stock of these items. Order, if you can, in 6 weeks, full or original packages as listed in column 2. Column 3 shows minimum amount we will ship of each item. If more than minimum desired, but less than full or original case, you must order in a multiple of minimum, viz.: 6-12-18-24, etc. No odd lots will be shipped. No package will be broken except when listed in this section of order sheet.											
1	2	3	4	5	6	7	8	9	10	11	12
Mer. Pkgs. / Contents	Mer. Pkgs. / Unit	Whol. / Unit	Quantity / Broken Unit	Whol. / Unit	ARTICLE	Retail Price / May 15	Retail Extension	100% Price / May 15	Cost Extension	100% Price / May 15	Cost Extension
	6				BEVERAGES						
CS					5 Ginger Ale G.R. Qts.	15					
CS					5 Ginger Ale G.R. Pts.	10½					
CS					5 Ginger Ale G.R. Ex.Dry 3-50	16½					
CS					52 Grape Juice qt G. R.	45					
CS					52 Grape Juice pts. G.R.	25					
CS					5 Moxie	22					
	6				Banner Lime Juice	35					
	6				Gold Label Lime Juice	15					
	12				Hires Extract	48					
Section 6											
WAREHOUSE USE THESE SPACES—FILL IN OUR WHITE AND YELLOW SHEETS											
Laid Out by _____ Checked by _____ Date Shipped _____											
1	2	3	4	5	6	7	8	9	10	11	12
Mer. Pkgs. / Contents	Mer. Pkgs. / Unit	Whol. / Unit	Quantity / Broken Unit	Whol. / Unit	ARTICLE	Retail Price / May 15	Retail Extension	100% Price / May 15	Cost Extension	100% Price / May 15	Cost Extension
					Elmwood Chicken Saz.	69					
					as glass 4 oz.	39					
					Dev Ham Und'w'd ½s	35					
					Dev Ham Und'w'd ¼s	20					
					Frankforts glass	25					
					Tongue Lunch 1s	48					
					Tongue Sliced Ox	42					
					Tongue Ox tin 1½	110					
					Tongue pickled pt	32					

Fig. 81.—Where a chain finds it necessary to break manufacturers' packages for shipment to member stores in small lots, a special division of the warehouse may be set aside for such broken packages, and a form used similar to the foregoing. Note the "minimum broken unit" column.

trucks comprising the order and directs loading of delivery trucks according to the routing schedule. One copy of the order, marked with number and address of the store to which

SHIPPING ERROR REPORT				TO REMAIN ON ORDER				Section 4					
PIECES CHARGED		Full Co. Bk. Co.		PIECES RECEIVED		Full Co. Bk. Co.							
SHORT													
QUANTITY	UNIT OF QUANTITY	ARTICLE						RETAIL PRICE					
OVER													
QUANTITY	UNIT OF QUANTITY	Store No. or Pk.	ARTICLE						RETAIL PRICE				
BROKEN OR DAMAGED IN TRANSIT													
										APPEAR AT TIME OF DELIVERY			
QUANTITY	UNIT OF QUANTITY	ARTICLE						RETAIL PRICE					
Manager's Signature _____ Supt. O.K. Here _____ Truckman Sign Here _____ (in duplicate)													

SHIPPING ERROR REPORT				WHEN USED, FILL IN, TEAR OUT AND GIVE DRIVER WHO WILL TURN IN TO SHIPPER IMMEDIATELY				Section 4					
PIECES CHARGED		Full Co. Bk. Co.		PIECES RECEIVED		Full Co. Bk. Co.							
SHORT													
QUANTITY	UNIT OF QUANTITY	ARTICLE						RETAIL PRICE					
OVER													
QUANTITY	UNIT OF QUANTITY	Store No. or Pk.	ARTICLE						RETAIL PRICE				
BROKEN OR DAMAGED IN TRANSIT													
										APPEAR AT TIME OF DELIVERY			
QUANTITY	UNIT OF QUANTITY	ARTICLE						RETAIL PRICE					
Truckman Sign Here _____ (in duplicate) Manager's Signature _____ Order Number _____ (in duplicate)													

WHEN ORDERING GOODS											
New orders must positively be mailed before noon on day following delivery of goods.											
Note Carefully. All original and duplicate sheets, numbered # 1 to # 7 inclusive, must be sent in each order. If any sheets are destroyed, you must tear out and destroy the balance of the set. Be sure to stamp each sheet in space provided at bottom of page, page 2 to page 7 inclusive.											
New or unlisted articles added to this order by manager must be listed under proper floor section and dept.											
See top of Page 6 section 6 for instructions on ordering Broken Packages.											
WHEN RECEIVING GOODS											
USE OF ERROR SLIPS AND CHECKING OF ORDER											
AT TIME OF DELIVERY: Count pieces of order and require truck driver to do same as per rule no. 31 in manual. If there is a shortage, overage, or any broken or damaged goods discovered at time of delivery make out error slip (in duplicate and require) driver to sign same. Shortage errors will not be allowed unless driver's signature appears upon it. Be sure all spaces of error slip are filled in properly.											
AFTER DELIVERY: Orders must be checked carefully (item for item) in column 1 so that you may know you have all the merchandise charged to you. Make out error slip (Original only) for substitutions or concealed errors found in checking order. Be sure that all spaces of error slip are filled in properly. The original copy of all error slips must be left attached to order sheet and have Superintendent's O. K. Order sheets (white) covering the delivery of goods must reach Warehouse within 48 hours after delivery in order to obtain proper credit on errors.											
										Rep. No. _____ (Main Use Only) Sheet 4	

FIG. 82.—Form used to tabulate overages or shortages at time of delivery.

it is to be delivered, is handed in a sealed envelope to the truck driver, who delivers it with the goods. The driver does not know the number of pieces comprising the delivery. He and a

helper unload the goods at the store and pile them in such a way that they may be easily counted. When the load is all off, driver and manager both count. Then the envelope is opened, and if the number checks, the driver goes. If there is a discrep-

TOM GOOD STORES, Inc.				TRANSFER — CHARGE											
CHARGE															
From Store No. _____				To Store No. _____ (IF GOODS RETURNED TO WAREHOUSE WRITE WAREHOUSE IN ABOVE SPACE)				Date _____ 192__							
Do not use these columns															
QUANTITY		CONTAINER	ARTICLE	UNITS	Selling Price	EXTENSION		UNITS	PRICE COST	EXTENSION		UNITS	PRICE COST	EXTENSION	
T	Nb					Dollars	Cents			Dollars	Cents			Dollars	Cents
1															
2															
3															
4															
5															
6															
7															
8															
9															
10															
11															
12															
13															
14															
15															
16															
TOTAL															
Received by Driver _____								Received at Store No. _____							
at Warehouse By _____															
Checked at " " _____								_____ Manager.							
MAIL CHARGE AND CREDIT SHEETS TO OFFICE THE DAY MDSE. IS HANDLED.															

Fig. 83.

ancy, the particular item must be determined immediately, and entered on the shipping error report (see Fig. 82). After the driver has gone the manager checks up the shipment for concealed errors, and if, any are found, these are also entered on the error report.

IMMEDIATE ATTENTION MUST BE GIVEN					
SURPLUS STOCK ADJUSTMENT					
STORE <u>Denver</u>		TO <u>S.F.</u>		STORE _____	
WE CAN USE THE FOLLOWING MERCHANDISE:					
ARTICLE	PRICE	CAN USE	CAN GIVE YOU	SEND US	
DATE <u>5/23/27</u>		MDSE. RCD. DATE _____			

IMMEDIATE ATTENTION MUST BE GIVEN					
SURPLUS STOCK ADJUSTMENT					
STORE <u>Denver</u>		TO <u>S.F.</u>		STORE _____	
WE CAN SPARE THE FOLLOWING MERCHANDISE:					
ARTICLE	PRICE	CAN USE	CAN GIVE YOU	SEND US	
DATE <u>3 23 27</u>		MDSE. RCD. DATE _____			

Fig. 84.—(Chain Store Age, June, 1927.)

Transfers.—It is often desirable to move goods from one store where they will not sell to another store where they will. Figure 83 illustrates the form used by the Tom Good Stores for transfers, which may go from store to store or from store back to warehouse.

The driver must check articles and quantities to see that they correspond with the transfer sheet.

While the importance of keeping stock balanced is great in every chain, in some chains it becomes especially important, particularly where the rate of turnover is in any case slow. This is true, for example, of jewelry chains. The Gensler-Lee Jewelry Company, operating six stores, uses the form shown in Fig. 84 to move its surplus stocks. At the end of each week, the manager of each store makes out these blanks which are then sent to all the other stores. If one store wants ten of a certain article, each of the other stores writes down what it can spare of this article. Headquarters is not notified until the actual transfer takes place. In a jewelry chain operating in a number of cities it is found that wants of consumers vary widely. For instance, in Denver old large sugar bowls with spoons hanging around them did not sell, but in Oakland there was no difficulty in disposing of them.

CHAPTER XXII

FINANCING THE CHAIN SYSTEM

Not many years ago the chain store system was not regarded with favor as a financial risk. Today investment bankers compete with each other for the opportunity of underwriting the stock issues of the larger concerns. The reasons for the favored position held by chain store securities are not far to seek.

In the first place, a chain of retail stores is unlike a manufacturing business, in that the chain rarely has an inventory over its actual and immediate needs. Thus, its expansion in times of depression is not materially retarded, particularly as the majority of chains deal in staple articles for which demand does not fluctuate greatly. Even more important is the cash policy adopted by the majority of chains, which provides as much ready cash in hard times as in periods of prosperity. That is, the ordinary chain can be counted on to show a profit regardless of general business conditions throughout the country.

The above statement is subject to some qualification. In 1920, for example, one of the large dry-goods chains carried so large an inventory as to wipe out its entire profits on \$52,800,000 of business, showing a net loss of \$300,000. Its policy of expansion was curtailed, although it was able to regain its position in 1921.

With perhaps two noteworthy exceptions, chain store financing has been free of disastrous failures. This has been due almost entirely to the fact that chain financing has been applied to already successful enterprises, which had been built up gradually on sound foundations. In the case of the exceptions mentioned, money was collected by high-pressure salesmanship before the chain was started, and before a responsible organization had been built up. The inevitable result was failure.

Early Chain Expansion.—Practically without exception, leading chain store systems today were originally financed out of

earnings. From the profits of a single store, another store was added. From the surplus earnings of a small group of stores, other units were formed until gradually a one-man control was transformed into an organization and an operating system. The point to note is the slow growth over a period of years—formative years during which increased economies in purchasing and merchandising occur. At various stages in its growth, a chain may absorb or be merged with other chains, thus facilitating the natural process of growth.

The policy of financing new stores out of earnings was that employed by the leading five-and-ten-cent store chains—by Woolworth, Kresge, Kress, and McCrory. It was also the method used in the grocery field by the Great Atlantic & Pacific Tea Company, the Kroger Grocery & Baking Company and by the various systems which now form the First National Stores and the Safeway Stores. It was also the procedure of the Waldorf System, Incorporated, of the United Cigar Stores, and of the J. C. Penney Company.

Not until a chain has had from 50 to 100 stores, with gross sales in the millions of dollars, has it ordinarily resorted to public financing. Before Woolworth offered its stock to the public, it had 631 stores and over \$50,000,000 in gross sales. While this is an exceptional case, Kresge had 66 stores and McCrory had 113 stores before public financing. It used to be generally held in financial circles that a chain would have to offer at least \$1,000,000 in securities before it would be worth while for the banking house to handle the issue. This condition is no longer so stringently adhered to. While it is generally true that it costs as much to float an issue of \$250,000 as it does an issue of \$1,000,000, yet, if a chain shows promise of great expansion, it may prove very profitable to the banking house to become associated with it in its earlier stages of growth.

Methods of Financing.—The chain system may make its choice between three methods of financing its expansion program:

1. It may obtain the necessary funds from current earnings of stores already in operation.
2. It may enlist the services of an investment banker to underwrite a stock issue.
3. It may sell its own stock.

4. It may borrow from banks.

The ancient and time-honored system has been to finance expansion out of earnings. Such a policy is entirely in line with the inherent conservative policies pursued by chain store organizations in general. By financing a new store out of accumulated cash surplus, there is no heavy overhead charge under which the new store must struggle. All the expenses incident to starting the new branch are already arranged and paid for before the store opens.

While there are no reliable figures for chain systems in the United States, it is known that there are only about 60 chains the common stock of which may be purchased on recognized stock exchanges. While recent years have been noteworthy for the offering of securities to the public by old established chain systems, the great majority of the chain systems are still privately owned. If the figure of 20,000 chain systems is correct, some idea may be obtained of the degree of private ownership still in existence. Nor is it reasonable to suppose that the owner of a safe and profitable business will relinquish control and profits before the expansion of his business and organization makes this practically compulsory.

Kingman Brewster, an authority on the legal aspects of chain store organization, points out the difficulties encountered by the administrative system of the chain when financing compels a change from single to corporate management.

One of the most difficult problems in chain store or industrial financing is the financing of corporations whose assets are under half or three-quarters of a million dollars. Whoever solves the problem of financing the small business will make a very decided contribution to corporation finance. For the reason of necessity the chains in the early stages have financed their expansion out of earnings. However, I once heard F. W. Woolworth state that such a policy was inconsistent with a desire to obtain a nation-wide distribution within the lifetime of a single man, and that in his own case he had found it necessary to provide for stock issues (originally \$50,000,000 common, \$13,000,000 preferred) for the purpose of making his institution a national one.

J. C. Penney, I think, used only about \$3,000,000 preferred stock, the rest of the financing being done out of earnings. However, his original form of organization, local and administrative, permitted an expansion by what amounted to additional partnerships and was very

unusual in chain store operations. Furthermore, it is apparent that the method of financing is very frequently dependent upon the form of corporate organization, and the problem has been to find a method of transition from the business doing five or ten million dollars to a corporate form of organization which would permit of financing a business to do twenty-five millions or more. The obtaining of this change without disrupting the administrative organization is the problem upon which all growing chain organizations are working.

Financing through an Investment House.—The method of financing out of earnings, though it is safe, is slow, and men of vision, anxious to succeed, and sure of the soundness of their principles and practice, wish to take short cuts. Provided certain conditions can be met, it is possible for them to obtain the necessary funds for expansion from a reputable investment banking firm which will distribute their securities to the public.

It is customary for the banking firm to take options on the common stock of the firm financed, making its major profit on the rise in value of the junior securities. Before a chain system can profitably employ the services of an investment banker, the following conditions should be complied with:¹

1. The size of the offering must be large enough to make it worth the banker's while to handle it. Ordinarily \$1,000,000 is the minimum figure, although there have been exceptions, particularly when bankers have sold small blocks of stock privately. It is usually understood in such cases that when the time for financing on a larger scale arrives, it shall be carried out by the banker who took care of the original obtaining of funds.

2. The earnings of the chain must be sufficient to take care of dividend or interest requirements. Customarily, earnings should be at least three times the amount required for interest or dividends. Thus, on an issue of \$1,000,000, 8 per cent preferred stock, earnings should approximate \$250,000 in order to make absolutely safe the \$80,000 required for dividends annually. It is important to note that in the case of bonds net profits are figured before federal taxes; in the case of preferred stock, after federal taxes. In both cases, all operating expenses are deducted before net profits are ascertained.

¹ For full discussion of the problem of public financing see article by Luigi Criscuolo, of Merrill, Lynch and Company, *Chain Store Age*, June, 1925.

3. The earnings of the chain must have been consistently good. It is not sufficient to have had one good year. The chain must have proved its ability to make profits average over a period of years. A young, and as yet untried, chain cannot ordinarily command sufficient confidence in its ability to make profits; it must have a record behind it.

4. The organization of the chain must have been perfected sufficiently to handle the expansion made possible by the public financing. The caliber of the management is, in the last analysis, the most important qualification. The banker is not securing money from the public for the purpose of increasing executive overhead; he is obtaining it to open more stores, obtain more desirable locations, make purchases in greater quantities, advertise more aggressively. The chain must already have its staff of trained managers, its accounting system, its warehouse methods.

The Type of Chain.—One more factor must be considered. Much depends upon the type of product sold by the store. For example, the five-and-ten-cent store chain earns between 7 and 10 cents on each dollar of business. Its business fluctuates comparatively little, even in hard times; it has no style problem; its products do not deteriorate; its selling force can be easily trained and does not command high pay; its chief problems are a good location, a good buying staff, and good store managers. Thus Woolworth, Kresge, Kress, and McCrory have been able to make use of public financing to their own advantage as well as to that of their bankers.

The grocery chain, at present, is entering a period of particularly keen competition, accompanied inevitably by scaling prices as low as possible and extensive use of loss leaders. This necessarily reduces profits. Furthermore, groceries are more perishable than five-and-ten-cent store merchandise. It is probably safe to estimate that the average grocery chain makes about half as much profit per dollar of sales as the five-and-ten-cent store chain. This, of course, is reflected in financing conditions.

The drug chain is faced by a stock problem of considerable proportions. The shoe chain, the hat chain, and all other apparel chains are faced with problems of inventory and style changes. The advantages of quantity purchase are not so easily obtained,

particularly when tastes differ in various parts of the country. The chains must be run with greater latitude in the choice of stocks than is the case with the chains handling more staple articles. The chain which carries low-priced general merchandise, operating on a strictly cash basis, and highly standardized in its methods, such as the J. C. Penney Company, can often show high profits and obtain public financing on favorable terms.

In certain cases, it is possible to finance individual stores, this being true especially where the chain owns valuable locations which it can offer as security. Special problems of financing arise when two or more chains combine, since arrangements must be made to take care of securities already outstanding.

The Kresge Financing.—The normal growth of a successful chain is illustrated in the financial history of the S. S. Kresge Company. This concern started in business in 1897 with one store. In 1925 it had 266 stores, as far west as Lincoln, Neb., and as far south as Norfolk, Va. Sales, which were only \$5,116,099 in 1909, increased to \$55,859,011 in 1921, and in 1925 had made a further jump to \$90,096,248. This company has made a phenomenal showing in net profits per store. In nine years it increased more than 147 per cent, from \$7,872 in 1912 to \$19,463 in 1920. In 1925 this had almost doubled.

The company originally followed a policy of financing expansion almost entirely out of earnings. During its early history the old stores were made to carry the burden. Thus, the reported profits on growing chains rarely show exactly how great an earning capacity the chains possess.

The Kresge Company had 1 store in 1897, 42 in 1909, 84 in 1912, 157 in 1916, 189 in 1920, and 266 in 1925. In 1916, when the company was reincorporated, the common stock was doubled and the par value changed from \$100 to \$10. In 1917, the stock had so increased in value that par was changed back from \$10 to \$100. In June, 1920, the common stock was increased to \$20,000,000, and a note issue of \$3,000,000 was sold. Later, the common stock was raised to \$50,000,000. Lastly, in January, 1927, the authorized common stock was made \$100,000,000, at the same time reducing the par value to \$10 and splitting up each of the old \$100 stock certificates into ten new ones.

Thus from a very small beginning the Kresge chain has advanced to its present position as second in the five-and-ten-cent store field. Unlike the Woolworth Company, it has not amalgamated with other chains at any stage in its growth.

Mergers and Consolidations.—In the growth of any industry, there comes a time when competition makes it appear desirable to combine forces rather than to cut prices. There are other reasons for consolidations, of course. Two or more small chains may decide that progress will be more rapid if all their units are operated under one management and with a combined and enlarged purchasing power. The last few years, however, have been marked by consolidations effected by fairly large and apparently prosperous concerns. The oft-rumored junction between the United Cigar Stores and the Schulte Company has taken place.

The Safeway Stores, Inc. has been organized in the West out of a number of chains. The First National Stores in Boston and vicinity resulted from a combination between several competing grocery chains. The Waldorf System, Inc., is composed of at least six formerly separate corporations. The Peoples Drug Stores, Inc. has also absorbed a number of smaller chains. These are only a few examples of what is taking place, and there is every indication that the movement will proceed further.

The pressure for consolidation in the retail field is often greater than that between manufacturing concerns. Two chains in the same line of business have an almost identical problem before them. There is no manufacturing patent to protect them, and little possibility of reducing overhead appreciably below that of competitors.

Obstacles in the way of consolidation are often difficult. Where two chains are each in private ownership an agreement is usually possible and the former owners take each a certain percentage of stock in the new corporation. Where two chains are already incorporated and have securities more or less widely distributed, agreement of stockholders must be obtained.

Chain Securities.—Chain store systems, like any other business enterprise, may issue securities in the form of bonds, notes, preferred, and common stock.

Bonds are normally used as a means of borrowing money on a long-term basis, and they are not normally employed for chain store financing. There are, however, numerous examples of bond financing, such as the \$6,000,000, fifteen year, 5½ per cent debentures of the McCrory Stores Corporation.

Short term financing may be done by means of notes, and is customarily employed when working capital is required. This, again, is not the normal method of chain store financing, although it has been used by such concerns as the S. S. Kresge Company.

An issue of preferred stock has always been a favorite method of chain financing. Not all chain systems find it possible to float issues of common stock on favorable terms, while an issue of preferred stock, with its prior and cumulative dividends, offers a more attractive investment to the purchaser, while allowing the chain to keep control still in its own hands. Furthermore, preferred stock is usually callable at a certain set figure, and when the chain accumulates surplus earnings it may call its preferred stock issue as has been done by the J. C. Penney Company, with its 1921 issue of \$3,000,000 First Preferred, and also by the Waldorf System, Inc., with its First Preferred issue.

With few exceptions, chain stores have been able to earn dividends, not only upon their preferred stock, but also upon the common. The number of chains with bonded indebtedness, as mentioned previously, is comparatively small, and net profits can be applied almost entirely to meet the demands of stockholders, although it must be remembered that a chain company needs a certain amount of capital for new enterprises during the year and this capital is taken out of earnings rather than borrowed, and the amount added to the funded debt.

It is the normal practice, of the larger chains, at least, to have their stocks listed on exchanges. Figure 85 illustrates the rise in value of an original share of Waldorf Common Stock based on quotations of the Boston Stock Exchange. This is by no means an isolated example, there being other chains the common stock of which has shown even greater appreciation. Dividends on chain store securities have had an exceptionally good record for payment both in times of prosperity and times of depression. Retailing on a large scale, as a general thing, is not subject to the same risks as a manufacturing business, although the likelihood of

being affected by a business depression varies greatly with the type of chain. As elsewhere pointed out, the chain grocery concern, with its staple line of necessities, is not going to be affected by depression in business to the same degree as a chain selling products where style plays any great part or products normally bought with excess dollars.

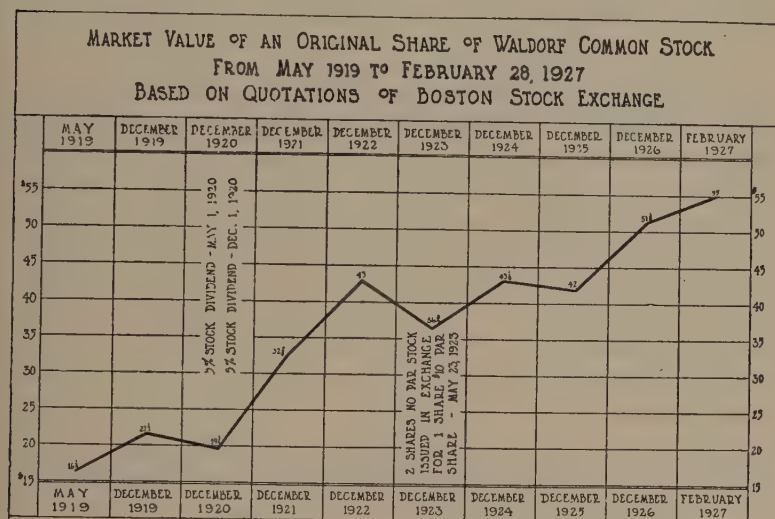


FIG. 85.

Financing the Smaller Chain.—Although there is an increasing tendency towards favorable consideration of small chain financing problems by reputable financial houses, it is by no means a simple matter to enlist their services. Under normal conditions, it is probably best for the chain to have financing done by a financial house of good standing. The chances for successful flotation are practically assured and the connection once made can be continued in future financing operations.

There are, however, times when the chain must take care of its own financing, and there are many instances where this has been done at a less percentage cost than would have been possible through the banking house. Under normal conditions a chain which is local in its operations and which needs no more than

\$250,000 cannot enlist the services of a banker. Naturally, the market for the securities will be limited to the area in which the chain operates. Furthermore, it is much more difficult to maintain a market for the small stock issue than for the large one.

It is customary for a financial house which backs a small chain to demand representation on the board of directors—a condition which all chains are not ready to agree to. The financial house, however, will “support the market” for the stock at a level somewhere near the offering price. That is, it will take any stock offered for sale at par.

The H. C. Bohack Company, Inc. operating a chain of grocery stores and meat markets in Brooklyn and Long Island suburbs, sold \$900,000 of its first preferred, 7 per cent, cumulative stock, \$100 par value, over the counter in 5 days in 1924. In 1922 a prior issue of \$1,000,000 had been floated in 7 days in the same manner. This was a remarkable demonstration of the faith of the public in the company's ability to earn profits. The methods used were extremely simple. Announcement was made of the offering in local newspapers, and a sign was placed in each store describing the offering. Managers were instructed to use exactly the same methods as were ordinarily employed in an over-the-counter sale of groceries.

Ellis R. Meaker, chain stores executive, describes the methods used by a small chain of eight service food stores in a town of 35,000 people which needed \$50,000.¹ The company wanted to sell the stock to its customers, but at the same time wanted to distribute it as widely as possible. Therefore, subscriptions to the 7 per cent cumulative preferred stock, \$100 par value, were limited to not less than two or more than ten shares to a customer. Partial payment of 20 per cent and balance in 5 months was allowed to those who desired this method. Logical prospects were obtained by asking each employee for a list of ten persons who would be likely to purchase the stock, and allowing a commission of $\frac{1}{2}$ per cent for sales made to names on the list. Eight chain employees were chosen to market the stock. Out of 400 prospects, but 150 were canvassed before the loan was over-subscribed. Cost of floating the issue was as follows:

¹ See article “Financing the Smaller Chain” in *Chain Store Age*, February, 1926.

	PER CENT
Commissions to salesmen.....	1
Commissions to those who furnished names.....	$\frac{1}{2}$
Salary of executive in charge.....	1
Stationery, advertising, and office work.....	$\frac{1}{2}$
Participation in dividend.....	$1\frac{3}{4}$
Total.....	$4\frac{3}{4}$

The first essential for a small company which intends to do its own financing is to have the confidence of the public. This is helped, in the majority of cases, by public belief in the substantial earning power of the chains and the conviction that the chains are performing actual service in reducing the cost of products which they sell.

Financial Advertising.—One of the most powerful arguments in selling chain securities is the steady increase in earnings. Figure 86 shows one of the advertisements used to sell stock of S. S. Kresge Company in 1920. Figure 87 shows a similar advertisement employed in 1927. Comparison between the two is interesting, showing how the continued progress of the chain has made the argument even more powerful.

Many small investors in chain organizations never would have gone to an investment house for their stock. They invest in the chain securities because they are personally acquainted with its activities and can see for themselves the business done. Therefore, a frequent and sound investment argument is that the dividends from savings invested in chain store stock will help to pay for purchases. It is the same argument which was so successful in selling the stock of the American Telephone & Telegraph Company.

There are certain things a chain should show in financial publicity matter:

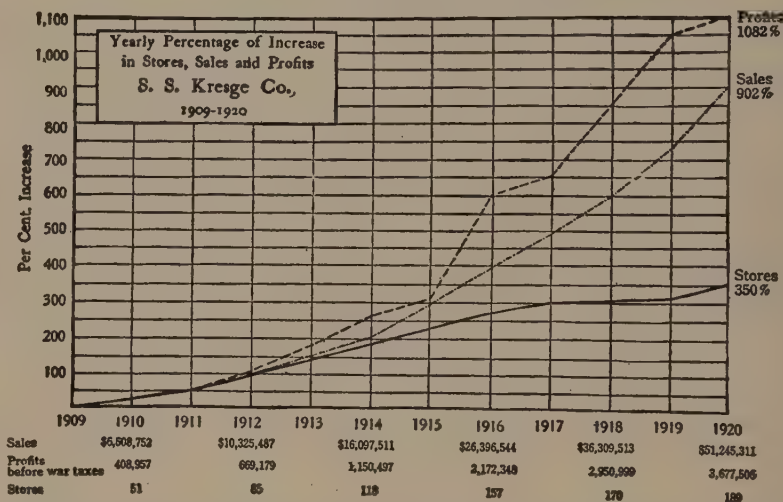
1. The prosperity of the chain at present. In this category come net sales for the year as compared with past years and the same for net earnings. Next there should be mention of dividend rate at present and in the past, and some statement of the security of the income and the investment.

2. The future prospects of the chain and a concise statement of why this stock is being offered for sale.

S. S. Kresge Company

Detroit, Mich.

*Operating a chain of 199 stores selling merchandise
at prices ranging from 5 cents to \$1.00*



The above Chart shows the growth of the S. S. Kresge Company since 1909. The sales for the first eleven months of the current year were reported at \$47,171,803 against \$43,421,735 for 1920. The repeal of the excess profits tax is expected to be of great benefit to this company.

Stockholders of record as of December 16th, 1921, will receive on December 31st, 1921, a cash dividend of 3% and a stock dividend of 54%.

The 1921 edition of our Kresge pamphlet may be had on application. The information contained therein, based on official data and original research, may be considered authoritative and should be of interest to investors and business men.

Send for Circular D-128

Merrill, Lynch & Company

Investment Securities

120 Broadway

New York

Uptown Office, 11 East 43rd Street

CHICAGO
105 So. La Salle St.

DETROIT
Penobscot Building

MILWAUKEE
First Wisconsin Nat'l. Bank Bldg.

DENVER
206 U. S. Nat'l. Bank Bldg.

LOS ANGELES
I. N. Van Nuys Bldg.

Members of the New York, Chicago, Detroit and Cleveland Stock Exchanges

All statements herein are based on information which we regard as reliable, but we do not guarantee them.

FIG. 86.—Advertisement of chain store securities.

Why I Want Waldorf Customers to Share in Our Profits

There are hundreds of people eating daily at the Waldorf Lunches who, every three months, are paid back by the Waldorf the money they spent in the meantime for their lunches. They have found one of the most profitable methods of reducing the cost of living.

They are the men and women who have put their savings in the common stock of the Waldorf System, Inc., and own enough shares so that the dividends they have received pay for their lunches the year around.

I am taking this method of talking to our thousands of patrons, as a great many of them are not investors, or are not in touch with investment houses, and are therefore not likely to know what, an unusually safe and profitable investment the common stock of the Waldorf System, Inc., is.

Many of our customers, for instance, do not know that the Waldorf System, Inc., is now one of the largest chains of lunch rooms in the country, spreading over seven States—that it is growing faster than any other chain—that there are now 89 restaurants in 28 different cities—that every day about \$30,000 is taken in on cash sales—that although less than two cents is made on the average meal of 30 cents, the vast volume of 36,000,000 meals a year enabled the Company to pay substantial dividends to owners of Waldorf common stock last year.

Why do I want more of our customers to become owners of our common stock? For much the same reason that every employee in the service of the Waldorf System, Inc., through a profit-sharing plan, participates in the profits of this System, down to the fellows that scrub the floors. Nothing pays so well as taking employees and the public into partnership, so to speak. For one of the reasons you receive more prompt and courteous service in a Waldorf Lunch is because the man serving you feels the pride and responsibility of being something more than a salaried employee.

For instance, you, as a Waldorf customer buy some of its common stock, and thereby become a part owner. You now feel more at home, eating in a restaurant in which you have an owner's interest. You take an interest in everything going on. If you notice some lapse in the courteous service or high standard of cleanliness of the Waldorf Lunches, you report it at once to the management. You will probably be giving us some idea of how a little improvement might be made, as other customer-stockholders have. You become a messenger

of good will. For, while, previously, you would tell a friend casually of the good things to eat at a Waldorf Lunch, you now, as an owner, naturally go out of your way to spread the good news of better food. Your interest brings Waldorf more and more business—because it is bringing business to *yourself*. You are not satisfied unless other customers are satisfied—and that spirit helps us in pleasing the 36,000,000 people we serve in a year.

Before we thus publicly invited our customers to become part owners of Waldorf Lunches through purchase of shares of the common stock, we wanted the most positive evidence to show the public how safe and profitable such an investment would be—proof that any man or woman could understand. We now have it.

During the last year Dun's reported 8881 business failures in the United States. Practically everybody knows that many of the largest corporations in the country had to cut off their dividends during the business depression, and that many of them closed down entirely. Yet, since April, 1919, the Waldorf System, Inc., has enjoyed such prosperity that it increased the number of its lunch rooms from 59 to 89—a 50% increase.

The net earnings for 1919 were at the rate of \$385,467 a year. Although the increased costs of provisions reduced the Company's profits per meal during 1920, the new restaurants acquired and the large increase in the volume of business with careful, efficient management, enabled the company to show net earnings at the rate of \$626,703 for 1920.

In 1919 dividends on the common stock were at the rate of 10% per year, cash dividend. In the year just closed, 1920, there were a cash dividend of 10% and two stock dividends of 5% each. Based on the present outlook, I can see no reason why future earnings should not equal or exceed past earnings.

This company—nor any of its officers—has no common stock to sell. It may be purchased like any other stock in the open market through any stock exchange member. The market price is shown daily on the Boston Stock Exchange.

If you have no broker connection, or if you are not familiar with investment matters, I shall be glad to advise you of the name of some responsible investment house through which you can buy Waldorf Common Stock. I shall welcome you as a part owner of this business, no matter how few shares you can buy. And you'll have the satisfaction of having your money invested in a business that has been *proved* safe.

R. E. Woodward. President

WALDORF SYSTEM INCORPORATED

169 High Street
Boston, Mass.

FIG. 87.—Form of financial advertising used by Waldorf System, Inc.

Conclusions.—As the chain systems grow in size, the problem of financing becomes more serious. There is an increasing tendency to distribute securities among the public, as has been done by the National Department Stores, the J. C. Penney Company, the large five-and-ten-cent chains, the United Cigar Stores Company, and others. The amount of capital stock outstanding in some of the larger chains allows them to compete in capital with many of the larger manufacturers, and this financial strength is rapidly making the chains a factor to be reckoned with in financial circles.

In spite of this, however, outside financing should be a last resort for the smaller chain. Unless it is able to finance its new stores out of earnings, it is building on an uncertain foundation. In case it proves desirable to purchase other chains, or embark on a particularly important program of expansion, it should not be necessary to resort to outside help. If this is necessary, the method will depend on the size and the character of the chain. A national chain may be financed from Wall Street, a local chain must be financed locally, and perhaps by the chain itself.

CHAPTER XXIII

EXPENSES AND PROFITS

In spite of large overhead expenses for highly paid executives, specialists in window trimming, merchandising ideas and buying, the chain stores manage to do business at an average cost less than the majority of their independent competitors. "Why is this so?" is the constant query of the independent retailer, and he is told to imitate the chain whereupon he seems to be no better off than before. He is told to standardize his accounting methods, increase his turnover, eliminate credit and deliveries, move to another part of town where the location is better, and sell only stock the public wishes. And because he cannot do these things he sets up a clamor about unfair competition and secret discounts. The truth of the matter is that the chain is an organization of individuals whose combined intellects form a far more powerful force than the average single individual running an independent store can command. The store manager is the personal representative of an impersonal organization; the independent store owner is the personal representative of a personal business.

Probably the greatest factor in keeping down chain expenses is a careful accounting system. Every dollar that comes in bears a certain charge against it, determined by long experience and careful records. Policies that do not pay are ruthlessly abandoned on the graphic evidence of their failure to make good. If a chain finds some particular location does not bring in enough business to carry the overhead and earn a profit, that store is promptly discontinued. Losses are minimized. No old goods are allowed to remain in stock, taking up room and eating up profits. It is a combination of business initiative and system which keeps down chain store expenses and enlarges net profits.

The Cost of Doing Business.—The variations in the actual cost of doing business are wide. They are dependent on so many factors, as policy, size, line of goods carried and of location of

stores, that the matter can be treated only suggestively, by stating a few of the general principles, and supporting them by concrete examples from stores in several lines.

The following table is made up from information from a number of sources, and is not intended to be authoritative or complete. The cost of doing business in various lines is as follows:

	PER CENT OF SALES
Drugs.....	22-30
Tobacco.....	8-20
Dry goods.....	15-25
Groceries.....	8-19
Variety.....	18-25
Shoes.....	18-30

Groceries and tobacco, for which the turnover is very rapid, can usually bring operating expenses to the lowest level. The average figure for a grocery chain is in the neighborhood of 15 per cent. The variations in grocery costs are largely due to the amount of service rendered.

The average figure for drug chains would be around 24 per cent. In the dry-goods field, the Penney organization has kept its sales expense remarkably low, although with increasing size the figure has risen.

Detailed Expenses.—Few chains are willing to disclose their operating costs from a just reluctance to discuss their particular methods of effecting operating economy. It must not be supposed, however, that profits are determined by the cost of doing business. This figure with its components is merely the index number which points out to the executive how this one factor in profits, control of operating expense, stands at the moment.

Salaries are the largest item of expense, and efforts to economize along this line generally result disastrously, especially when it is considered that so much of the chain's prosperity lies in the hands of the store managers. Rent is generally the next item. This must be carefully watched. For example, in the United Cigar Stores, where every item is figured in percentages, it is immediately possible to point to a store paying too much rent. If Kansas City were paying 8 per cent for rent, there would be an immediate investigation.

Elimination of delivery and credit accounts, together with a small amount of advertising, are the largest factors in decreasing chain store expenses, as compared with independent retailers. The salary percentage, as a rule, is higher. From 2 to 5 per cent is saved on deliveries and perhaps one-half of 1 per cent on bad debts.

Figure 88 shows a comparison of expenses between the five-and-ten-cent store and the drug store. The first three items, salaries, rent, and advertising, in both cases follow the same

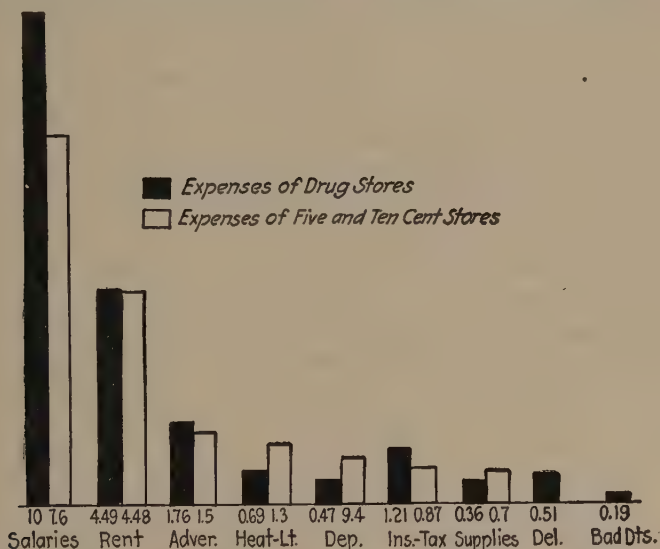


FIG. 88.—Comparison of expenses of five-and-ten-cent stores with those of drug-chain stores.

order. Heat and light in a five-and-ten-cent store, owing to the larger unit size would naturally be double that of a drug store.

Overhead.—Overhead shows broad variations. In periods of prosperity, when sales are large, overhead goes down. When sales fall off, overhead increases. Overhead is inelastic in most of its items, and is slow to react to business conditions generally. Where all buying is done at headquarters, overhead is apt to be larger than where local managers have some buying responsibility.

George H. Bushnell, vice-president and comptroller of the J. C. Penney Company, once stated that each store was charged a fixed percentage on sales each month for the maintenance of the central offices. This takes care of rent, salaries, traveling expenses for officials, etc. In one year this percentage was 1.4 per cent which included cost of accounting for 197 stores operated at that time. Accounting was only two-fifths of 1 per cent. This percentage absorbed all the corporation taxes assessed against the stores.

Again, the vice-president of a large drug company said: "We aim to keep overhead at 8 per cent of gross volume, including salaries of general officers, rent, traveling, auditors, sales managers, etc." The executive of another chain of 250 stores claimed his overhead expenses had been going down every year. For the first year or two it ran up to 10 per cent and since then had declined at the rate of about 1 per cent annually. In 1918 it was 3 per cent.

Overhead decreases with the number of member stores operated. A new retail link in the chain requires little addition to the chain overhead. Thus, small chains normally have larger overhead expenses than the larger ones. The whole matter, of course, is dependent on efficient management. Large salaries paid to executives do not necessarily mean great overhead, because the expense is so broadly distributed, and the profits accruing from the benefits of having these high-salaried executives at the head of the business are so large that the entire sum appears small.

Keeping Expenses Down.—Ask the proprietor of an ordinary retail store what his expenses are and he may be able to tell you, but probably he will not. The executive of a chain can tell almost instantly just what the expenses of the chain as a whole are and the expense of each of his stores. Expenses are kept down and should be kept down by unceasing supervision. The variations in expense between stores of the same size that have obtained their normal volume of business are not, as a rule, very great. In a new store, of course, which has no definite clientele, and is not known, there is a high initial overhead which comes down to normal as the store becomes established.

In one drug chain all the store managers are given a bonus of \$25 a month if they can succeed in holding their expenses,

outside of rent and advertising, down to 15 per cent of their sales. Rent and advertising are eliminated because the selection of the location and the rent paid are not controlled by the store manager. This, of course, is true in almost all chains.

All percentages used in making up the bonus are computed according to the sales volume of the store.

	PER CENT
Salaries and commissions.....	10
Light, heat, water.....	1½
Contingent, renewal, expenses.....	1½
Supplies.....	2
Total.....	15

Many of the store managers earn the bonus every month, since this 15 per cent is computed on the average of all stores, and many managers find it possible to surpass this average. It can be done by getting more volume of sales and turnover, or actually decreasing some of their expenses. These store managers, in addition to the actual cash bonus, are glad to have their stores make better showings than the other stores, and it makes them feel as though they were on the road to promotion.

This example has been given because the majority of chains base their bonus to store managers on the volume of business or the net profits of the store.

Albert I. Stewart, manager of the Sam Seelig Stores in California, says the average cost of doing business for a grocery store is 13 per cent. A curious system of giving a bonus to managers is in vogue in this organization. Every manager who at the end of the month shows an actual inventory in excess of his book balance gets a bonus of one-half of 1 per cent of his sales for the month. The basis is not volume of business but store-managing efficiency. The manager who constantly earns this bonus has his pay raised.

The bonus is reckoned not on expense but on inventory. Every month the inventory man comes around. Suppose one month he finds stock worth \$3,809.05 and the following month \$3,824.04, as in the example quoted in *Business* for November, 1921. Then headquarters draws up this recapitulation.

Inventory at beginning of month.....	\$ 3,809.05
Purchases through month.....	6,444.08
Total charged.....	\$10,253.13
Sales for month.....	6,497.06
Book balance.....	\$ 3,756.07
Retail inventory.....	3,809.05
Book balance.....	3,756.07
Gain.....	\$ 52.98

The reason for this gain is that many articles are invoiced to the store at group prices, that is, two bars of soap for 15 cents,

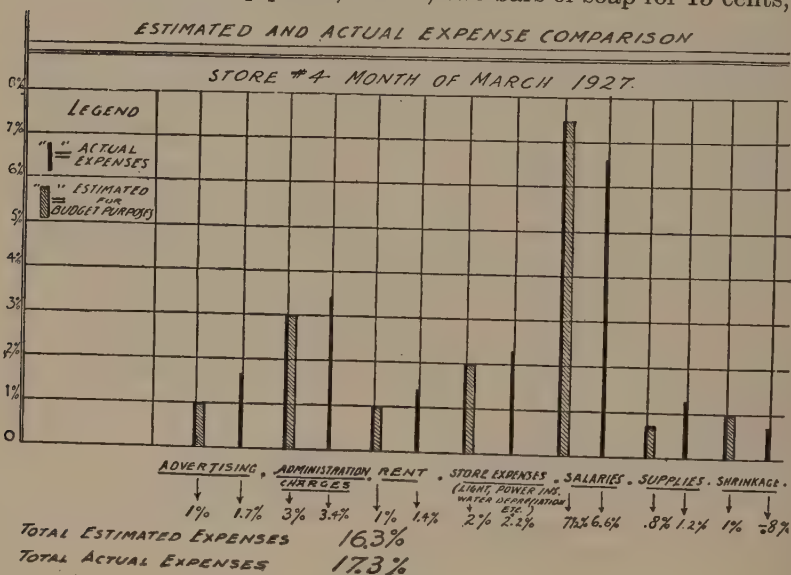


Fig. 89.

or three cans of soup for a quarter. Thus, if the store is properly managed, the manager should have no difficulty in showing a profit.

Figure 89 illustrates how the management of the Handy Andy Community Stores, Inc., of Miami, Fla., submits expense charts to each of its store managers, allowing them to see how near they came to the estimated operating expenses for their respective stores.

Eliminated Expenses.—The majority of chain stores are “cash-and-carry.” For many years this idea was fixed as one of the inevitable and permanent principles of chain store operation. The forces of competition are making inroads upon the low operating costs of many chains, as well as in their ideas that services must be cut, if not entirely, at least to a minimum. The “cash-and-carry” policy offers many advantages, among which are the following:

1. It eliminates bad debts.
2. It enables chain organizations to discount their purchases immediately, and this alone is a saving not generally recognized. For example, 2 per cent payable in a month is 36 per cent in a year.

SAVINGS EFFECTED THROUGH TAKING DISCOUNTS

	NET	PER CENT PER ANNUM
1 per cent 10 days	30 days	18
2 per cent 10 days	30 days	36
3 per cent 10 days	30 days	54
3 per cent cash	30 days	36
5 per cent 10 days	30 days	90
8 per cent 10 days	30 days	144
2 per cent 10 days	60 days	14.4
3 per cent 10 days	60 days	21.6
2 per cent 30 days	60 days	24
5 per cent 30 days	4 months	20
5 per cent 30 days	60 days	60

3. It simplifies accounting, which otherwise would assume great proportions.

4. It saves the time of verifying accounts and making out charge slips, bills, etc.

Another great expense which has been done away with by chain organizations is delivery. In the case of grocery stores this expense often mounts up to 4 and 5 per cent of gross sales, while a department store pays around $1\frac{1}{2}$ per cent for deliveries.

The Piggly Wiggly stores by their self-service idea have cut down the largest item of expense, that is, labor, but it has yet to be proved how far the self-service idea can be extended.

After all, the greatest universal saving effected in chain store operations is the efficient standardization of all processes con-

nected with running the business from the top to the bottom. The greatest saving is the elimination of waste.

Profits.—The ultimate proof of the success of any business is the ability to pay regular dividends to stockholders. Capital is invested in the business for the sole purpose of having it return net profits. Net profits on sales, however, are not the same as net profits on the invested capital. They are higher or lower according to the number of times the inventory can be turned over and the percentage of net profits realized.

The five-and-ten-cent chains usually lead all other retailers in the percentage of net profits, despite their policy of merchandising on a price basis. Manufacturing concerns, in the past, have

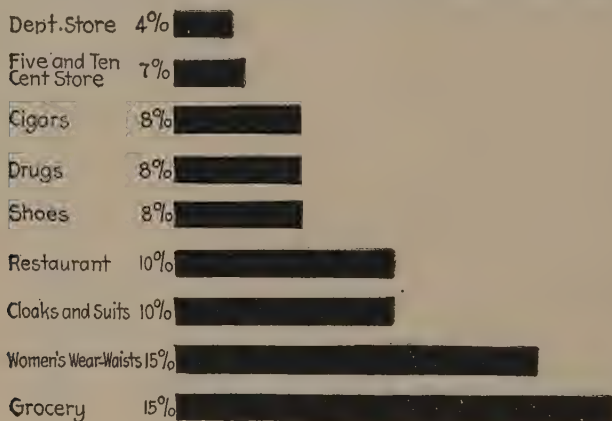


FIG. 90.

generally shown a higher rate of profit per dollar of sales than have retail enterprises.

The ideal of the United Cigar Stores for a long time was to cut gross profits 1 per cent each year and, by selling the consumer more at a lower price, make larger net profits. Ordinarily a chain store is satisfied with a far smaller profit on gross than the independent, and the secret of its willingness to accept this lies in turnover more than in any other cause. It pays to sell Uneeda Biscuit a shade less than independent grocers when the chain can turn it 52 times in the year and the independent grocery not half so often. The average grocer would like to get 25 per cent gross profit on a sale, and this he feels he must do if

he is going to make a profit. The chain grocery in many cases is satisfied with half this. The grocer may get 5 to 8 per cent net, but a chain grocery with a turnover from three to four times as large can be satisfied with 2 per cent net.

Figure 90 shows the percentage of profit on gross, which chains in various lines of retailing plan to obtain. These figures, of course, are mere approximations, and it is perfectly possible for an organization to operate successfully with a larger or smaller profit on gross. Generally, the older the company the smaller profit needed to obtain on gross. This is due to the standardization of method which comes only with long practice.

Store Profits.—Profits from each individual store depend on all the factors which have been discussed—on the ability of the manager, on the location of the store, on the pricing of the products, on the turnover, on the efficient supervision by the central office. Notwithstanding all these tendencies toward stabilization, some stores make more money than others, because of the predominance of some particular advantage. Stores that do not make profits should in most cases be abandoned, and actually are. If there has been a mistake in judgment, the easiest way to remedy it is to take immediately whatever loss has been incurred and start another store somewhere else.

Some chains find it desirable to operate several links at a nominal profit rather than sacrifice the advantages to be gained in the way of publicity and advertising. A show store which barely pays for itself as an individual unit may serve as a drawing card for all the others.

Store profits, like everything else, and more than anything else, are scrutinized by the management. If profits fall off in a particular store, there is immediate inquiry. There is no waiting to see what will happen next month. There is an investigation to find out what really happened to cause this sudden fluctuation. A sudden profit causes a similar investigation to find out whether the cause for profit in that store cannot be applied equally well to other stores. The chain organization is constantly profiting by the mistakes and by the constructive plans of its store managers.

It is to the advantage of nearly every individual in the chain to increase profits. It is possible, therefore, to teach the person-

nel methods of increasing profits. One method which has been found successful is to increase the size of the average sale.

Law of the Average Sale.—An increase in volume, in itself, does not necessarily mean an increase in profits, but an increase in the average sale per customer does mean an increase in profits. The following figures and comments are adapted from an article by K. G. MacDonald, general manager of the Federal System of Bakeries of the South:

The law of the average sale is briefly as follows:

The cost of the product sold, the average sale per customer, and the net profit are interdependent—fluctuations in one are reflected in the other two—and by increasing the average sale the profit is also increased.

The following figures were taken from six stores in four states, chosen at random. In these stores, the cost of the products fluctuated with the change in the prices of the raw materials from which they were made. In the average store this factor would show far less fluctuation, since in normal times the cost on the average varies but little.

Following are the figures on store A:

A				Increase or decrease from previous month		
	Raw material used, per cent	Average sale	Profit, per cent	Raw material	Average sale	Profit
June (sales, \$4,043.26)...	42.5	24.0	11.1			
July (sales, \$3,783.57)...	45.1	24.9	12.5	+2.6	+0.9	+1.4
Aug. (sales, \$3,667.52)...	45.0	23.8	7.9	-0.1	-1.1	-4.6
Sept. (sales, \$3,614.60)...	40.8	24.9	12.0	-4.2	+1.1	+4.1

In July, this store earned more profit than in June, although the July sales were nearly \$300 less than the June figures. Although the material cost increased in July, the profit also increased. As an explanation of this, the average sale was increased by nearly 1 cent per customer. Comparing July with August, although material cost was lower, the profit was considerably less, for the average sale fell off more than 1 cent per customer in August. That is, keeping material cost down and average sale up makes increased profits.

B				Increase or decrease from previous month		
	Raw material used, per cent	Average sale	Profit, per cent	Raw material	Average sale	Profit
June (sales, \$3,847.19)...	44.5	20.9	2.4			
July (sales, \$4,015.81)...	51.0	21.7	5.2	+6.5	+0.8	+2.8
Aug. (sales, \$4,248.52)...	43.3	20.9	16.3	-7.7	-0.8	+11.1
Sept. (sales, \$4,699.54)...	42.8	21.7	18.3	-0.5	+0.8	+2.0

In store B, there is an increase in volume and an increase in average sale in July as compared with June which makes increased profits even though material cost was higher in July. Comparing August with September, although material cost was practically the same, the profit was increased because the average sale was increased by almost 1 cent per customer.

C				Increase or decrease from previous month		
	Raw material used, per cent	Average sale	Profit, per cent	Raw material	Average sale	Profit
June (sales, \$5,562.56)...	37.8	17.8	16.9			
July (sales, \$6,044.49)...	37.4	18.5	24.5	-0.4	+0.7	+7.6
Aug. (sales, \$6,597.96)...	37.6	19.1	26.7	+0.2	+0.6	+2.2
Sept. (sales, \$5,962.16)...	36.9	18.9	23.3	-0.7	-0.2	-3.4

The figures for store C show how fluctuations in the amount of the average sale affect a store doing a large volume of business. In four months, material cost varied less than 1 per cent but the percentage of profit went up as the average sale went up, and the profit came down as the average sale dropped. The volume being large, a slight falling off in the average sale resulted in a serious decrease in the percentage of profit.

D				Increase or decrease from previous month		
	Raw material used, per cent	Average sale	Profit, per cent	Raw material	Average sale	Profit
June (sales, \$4,491.65)...	47.3	21.3	9.3			
July (sales, \$4,420.66)...	37.8	21.9	18.7	-9.5	+0.6	+9.4
Aug. (sales, \$4,221.57)...	38.5	21.6	15.3	+0.7	-0.3	-3.4
Sept. (sales, \$4,198.49)...	38.9	23.2	16.0	+0.4	+1.6	+0.7

June and July represented a period of reorganization at store D, resulting in an improved system of operation and consequent conservation of materials. Comparing July with August, there is a falling off in profit due to lower average sale. In September, profit for the month increased in spite of advanced material cost because average sale was more than $1\frac{1}{2}$ cents more per customer than in August.

E				Increase or decrease from previous month		
	Raw material used, per cent	Average sale	Profit, per cent	Raw material	Average sale	Profit
June (sales, \$1,827.55)...	48.3	16.2	-6.9			
July (sales, \$1,762.00)...	41.4	16.9	1.9	-6.9	+0.7	+8.8
Aug. (sales, \$1,872.28)...	46.7	15.2	-0.5	+5.3	-1.7	-2.4
Sept. (sales, \$1,730.60)...	46.4	15.0	-3.8	-0.3	-0.2	-3.3

In three of the four months store E lost money. The low average sale is significant.

F				Increase or decrease from previous month		
	Raw material used, per cent	Average sale	Profit, per cent	Raw material	Average sale	Profit
June (sales, \$4,551.21)...	38.8	16.3	2.5			
July (sales, \$4,832.72)...	39.5	18.5	6.3	+0.7	+2.2	+3.8
Aug. (sales, \$5,116.39)...	40.3	19.3	7.7	+0.8	+0.8	+1.4
Sept. (sales, \$4,541.60)...	42.2	17.6	1.6	+1.9	-1.7	-6.1

Store F belongs to the class of store where a certain minimum volume of business must absolutely be done each month to permit the earning of any profit. This is chiefly on account of the heavy fixed overhead of rent and amortization charges which stores of this class must carry. Below a certain point in sales, no profit is possible, no matter how well controllable expenses are held down and no matter how high the average sale may be. The law still holds, however.

In the case of this store, \$4,500 per month is about the minimum on which any profit can reasonably be expected. Comparing June with July, a small increase in the material cost was far more than offset by a marked increase in the average sale which resulted in an increase in profit. In August, although material cost was slightly higher, as the average sale increased nearly 1 cent per customer, the profit also showed a fair increase. In September, the material cost advanced again, while average sales fell off nearly 2 cents per customer, with a consequent sharp falling off in profits.

This condition has been examined at length because of the lucid explanation of the subject and the evident bearing of the point in question, namely, the effect of increased average sale on profits. In another connection it was pointed out how the Liggett one-cent sales, by increasing average sales, allow the store to make this enormous reduction in selling price and still make a nominal profit.

Miscellaneous Profits.—A member store in a grocery chain frequently turns in more profits than were to be expected by an examination of goods shipped to that store. Many items sell

for 9 cents, three for a quarter, or so much a case of one hundred. These are usually charged out to the store at the group price, and, consequently, there is a steady but uncertain source of profit from these odd cents.

Then many member stores are allowed to buy milk, green vegetables, cottage cheese, and other articles by themselves. This forms another source of profit not generally counted on.

Chains go on the theory that "a penny saved is a penny earned." Thus, a careful check is often kept on how much paper and string each store uses. In many chains a penalty is put on waste. That is, a manager is allowed a variation of one-half of 1 per cent on bulk goods. He is allowed $\frac{1}{2}$ pound out of one hundred pounds of sugar and if the difference runs over this he is charged for it.

The chain organization expenses should be no more proportionately than those of independent stores in the same locality or neighborhood. As a matter of fact, they should be materially less, due to the possible economies and savings which have been mentioned and discussed in this chapter. That is, the elimination of credit accounts, the abolition of deliveries, and the speeding up of turnover will decrease expenses and consequently increase net profits.

In comparison with other retailing ventures, the chain organizations are remarkable for consistent steady profits. By carefully pursuing a policy of increasing sales, increasing turnover, and standardizing of method and routine, they offer great resistance to periods of depression.

CHAPTER XXIV

AGENCIES AND CONCESSIONS

At least a few pages must be devoted to the subject of agencies and leased departments. Agencies may be of two kinds. The first and long familiar type is that illustrated by the Rexall and United Cigar Stores agencies, that is, agencies granted by a chain already operating its own stores. This policy is usually adopted to increase volume of sales, thereby reducing buying or manufacturing costs. A second type of agency has arisen during the last few years. It consists of the combination of a number of retailers who virtually make themselves the agents of some concern, usually a wholesaler. It differs from the buying associations in that prices, display, stock arrangement, and other details are established by headquarters. The local units even make reports, just as the regular chain stores would do. It is an attempt to combat the chain and, while the outcome is still doubtful, some of these "agency" chains may work out successfully, although their ultimate goal will probably be a regular chain organization.

The problem of the leased department, particularly in ready-to-wear and department stores, is also much under discussion. A shoe company, for example, may operate shoe departments in department stores, running them on chain principles, with a central buying office, and local store managers. Strange though it may seem, such a leased department may return more profit to the store than had the department been operated by the store itself. It is the opinion of such an eminent authority on retailing as E. A. Filene, that this practice of operating departments in chains will increase.

Chains themselves sometimes grant concessions in their stores, such as fruit stands in grocery stores, and music counters in variety stores.

Advantages of Agencies.—The agency system of distribution as a supplement to centrally owned stores is well established.

Manufacturers' chains in particular have distributed successfully through agents for many years. Strictly retail chains would hardly find it advantageous unless it were greatly desired to build up volume quickly. A candy chain, on the other hand, which makes its own merchandise, might find the added volume highly profitable. Similarly, as in the case of the United Cigar Stores Company, where a community is not large enough to support one of the company's own stores, an agency will prove satisfactory. This company estimates that a minimum population of 25,000 is needed for a branch store, although there are exceptions to this rule, while almost any center of population will support an agency.

Agencies, when properly handled, will build volume of sales at less expense, and at less risk than individual stores can do. They can be used, as explained above, to fill in market coverage in smaller communities. They also have been found to give the company's line considerable publicity, which actually increases sales in the company's own chain of stores.

Disadvantages.—Agencies are open to several criticisms. In the first place, and most serious of all, the concern distributing through agencies has little or no control over the way the product is handled there. It may make stipulations when the contract is signed, and it may refuse to sell an agency when the regular price is cut or when relations become unsatisfactory for any reason, but it cannot enforce the regulations operative in its own stores.

The arguments pro and con for agencies are well set forth in the experiences of two candy chains, one in the East and one in the West, the former obtaining distribution and publicity through several thousand agencies; the latter having tried agencies and found them a failure.

The Mission Candy Company, of Los Angeles, Calif. started out by selling its surplus production to agencies. When agencies did not reorder, an investigation was made and it was found complaints were being received from consumers. Agencies were not taking proper care of the stock; and old packages were being sold with resultant dissatisfaction. The company, therefore, eliminated its agencies, and built up its own stores to take care of factory production.

The Mary Lincoln Candies, Inc., of Buffalo, N. Y., has eight stores of its own, and about 2,500 independent merchants stocking its product. Total volume of production is divided about equally between stores and agencies, most of the latter being retail drug stores. Agencies are given no contracts, the only understanding being that the sale of Mary Lincoln candies shall be given to them exclusively within a certain area, which is specified. This concern admits that the chief difficulty with agencies is that the product gets stale before it is sold, the consumer then complains, and the agency puts all the blame on the manufacturer. To avoid this, the company uses great care in manufacturing, so that the product will remain fresh for a considerable length of time, and, in addition, sends out advertising helps and special cards for reordering. No encouragement is given to put in large stocks.

The United Cigar Stores Plan.—As far back as 1915, the United Cigar Stores Company established an agency department, and has been building it up ever since that time. The agency business is in charge of one of the vice-presidents of the company, with four subzones, each in charge of an assistant vice-president. Each of these is divided again into territories in charge of agency superintendants, and each territory into districts in charge of districts sales managers.¹

Agencies are selected by agency district sales managers, judging mainly on the location and type of store. News dealers in metropolitan districts are favored; drug stores and candy stores in outlying districts. In addition, billiard parlors, clubs, hotels, cooperative stores, and restaurants have been used for agencies. The company also handles a sundry line of goods, ranging from alarm clocks to medicinal preparations, which can be marketed through these agencies. The man who handles the agency must be reliable and a man of standing in the community, while, to ensure his financial responsibility, he must provide a Fidelity bond.

The method of operation is simple enough. The agent buys no merchandise from the company, but merely agrees to sell its goods in his store, for which he receives a stipulated commission.

¹ For full account see *Chain Store Age*, July, 1926, article by M. A. Bouvier, Director of Agencies, on "How we Handle our 2,000 Agencies."

He must fill a certain minimum turnover requirement, and a day upon which he must requisition merchandise is assigned him, which may be once every week or every two weeks, depending upon the distance from the nearest warehouse. His requisition (see Fig. 91) must equal retail sales for the preceding week or two weeks, and must be accompanied by a check for sales during that period, minus his commission.

No agency is more than 100 miles from a supply source, and service is usually given within 48 hours. District sales managers visit every agency at periods varying from 2 to 4 weeks, and have the right to inspect stock and take inventory. Either side may terminate the agreement at a few days' notice. The company insists that opening and closing hours, and agency standards of service must conform to company policies.

It is agreed not to open a second agency near enough to interfere with the business of the first agency. Agencies are not ordinarily opened, however, in districts that are likely to support one of the company's own stores, which are regarded as much more profitable. It has been found that the granting of a United Agency to a store increases that store's business about fivefold over the previous average.

Agency district sales managers are remunerated upon the basis of the business produced by the agencies in their districts. Superintendents participate in a yearly bonus. Agency district managers are usually promoted from store managers in the company's own units, the promotion being based largely on personality and persuasiveness.

Agencies in the Grocery Field.—In some cases jobbers have been able to turn independent retailers into agencies for their private brands and other products which they handle, both to their own profit and to that of the hard-pressed independents. One of the most successful of these hybrid chains is the so-called Red and White Stores, organized as a subsidiary of the S. M. Flickinger Company, Inc., of Buffalo, originally a wholesale grocery house which first started its own chain and then added this secondary chain. It did this because it found that, so far as locations for its own stores were concerned, it had about reached the saturation point in certain places. If new outlets could be secured within the warehouse radius, costs could be

reduced. In the second place, independents thus secured as managers had a vital interest in the profits. The company makes four stipulations that the retailer must accede to:

1. That his store will be maintained on a cash-and-carry plan, eliminating practically all credits and free-delivery service.

2. That he will buy all his dry groceries, except flour, from the Flickinger Company exclusively, and none through "specialty men" except in cases where the company gives written consent.

3. That he will pay for his purchases within 10 days from date of receipt, less 1 per cent. (All sales to Red and White merchants are f.o.b. warehouse, giving them a chance to eliminate freight and trucking charges by calling for the goods in person.)

4. That he will paint the front of his store in the Red and White standard colors and design at the time of opening and at least once a year thereafter, the Flickinger Company to furnish suitable signs (which are loaned) and paints (which are sold at cost) for the exterior and interior of stores.

Contracts hold for 2 years, and thereafter are renewed automatically for 3-year periods. The chain gives the Red and White grocers merchandise at the same prices charged its own stores, and also all market information. No other agency is given within the market radius of an already established agency. The chain expert shows the independent how to lay out his store, fix his stock, arrange his display; and this the independent agrees to do. Once a month a supervisor goes over the books of the Red and White member.

It is pointed out by critics of these "new plans" that any agreement of members of such associations to respect headquarters' rulings as to price would run counter to price-fixing legislation. The difference between this agency type of relationship and the cooperative association lies in the close-knit and well-supervised central organization. While the Red and White grocer buys no stock in the parent concern, the Clover Farms Stores Company, of Cleveland, Ohio, is made up of members each of which owns one share in the corporation. Each member contracts to follow the buying, stock arrangement, display, and accounting system of the corporation. Expenses are budgeted and assigned on the basis of sales. Such endeavors as these are symptomatic of the revolution now taking place in retailing.

The Leased Department.—Since the World War, department leasing in retail stores has made rapid headway. Probably one-third of the department stores in the United States have one or more leased departments, although generally these are not the largest nor most important. The range of products sold in this way varies widely. According to a list made by the National Retail Dry Goods Association, departments most frequently leased are millinery, hair goods, crockery and glassware, carpets and linoleums, furniture, optical goods, musical instruments, wall paper, shoes, furs, sewing machines, dress patterns, men's clothing, and cleaning and dyeing.

A department may be leased either by a manufacturer who wants to handle his own distributive outlets, in which case it is run much as any manufacturers' chain, or it is rented by a company specializing in this one kind of merchandise and forming a chain of leased departments. The lessee has the advantage of securing a location in a developed market, and, if he has chosen well, the name of the lessor is a profitable asset to him. Against this is to be set the fact that the goodwill built up is entirely for the lessor, and if the department is highly successful, it is probable that the rent will be raised. In some cases rent is on the basis of a percentage of net profits or, perhaps, of gross sales, or some combination of the two. It is customary to have contracts include a yearly guarantee of a minimum amount.

The tendency to lease departments in which the style element enters to a large extent is growing. The Wohl Shoe Company, shoe wholesalers, operates a chain of approximately 50 units in ready-to-wear stores. Only 100 per cent locations are considered, preferably in university towns where style shoes sell better. Departments are leased on a percentage basis. Each manager is given quite a good deal of authority. He hires his salespersons, selects his stock, sets his prices, handles his advertising, and generally merchandises his department. He makes a daily report sheet to headquarters, showing sales, weather conditions, advertising space used, and similar information. Headquarters in this way keeps close track of inventories. Managers are notified immediately of impending style changes. While managers are allowed to make their own displays, it is insisted that these be changed at least once a week and preferably twice.

Concessions.—Chain stores sometimes have granted concessions in their own units, such as music departments in variety stores, and green goods and fruits in grocery stores. In the Safeway Stores, of California, there were at one time several hundred green-goods departments operated by concessionaires. The reason for this change was that the chain store manager had no authority over the concessionaire and the service given to customers was not up to the chain standard. Furthermore, the customer had to be served by two men, one for the groceries and one for the green goods.

Chains have always looked rather unfavorably on fruits and vegetables because of the great difficulty in keeping down losses. The Safeway chain has prepared a special bulletin, covering in detail the handling of fruits and vegetables, which is sent to all managers.¹

¹ For copy of this see *Chain Store Age*, p. 39, April, 1927.

CHAPTER XXV

INSURANCE

One has only to consider for a moment the subject of insurance as applied to chain store systems to see its importance. Insurance means protection from liability. It may mean solvency or the opposite. At a comparatively small overhead expense, the chain can guard itself against various losses which it may incur and over which it has no control. These losses fall into three general classifications:

1. Damage to the premises or merchandise, the most frequent cause of which is fire.
2. Liability on account of personal injuries to individuals on or by the property of the chain, through accident.
3. Loss through the dishonesty of employees.

The average chain may look at these problems in two ways: First, it may consider, if the risk is well distributed, that, if one store is destroyed by fire, the rest will remain unharmed and the loss will be comparatively small and can easily be borne. Second, it may be argued, if the locations are not distributed, the chances of a severe loss on a single occasion are many times increased. In general, the insurance policies of the various chains are combinations of these two points of view.

The Insurance Broker.—Insurance is a matter of major importance, not to be left entirely to the insurance broker. It does not follow that what the broker has to offer in the way of insurance is the best to fit the individual case. The company, however, particularly if it has been established for some years, knows fairly well where the greatest risks lie. The best policy, therefore, is for it to determine what insurance it needs and then make the broker supply it.

A company gains nothing by distributing its insurance among several brokers. It is certainly no cheaper, and it adds complicating factors. If all the business is not given to one broker,

in the event of loss there is complication or confusion in arranging for the adjustment, whereas if one broker handles the entire insurance business of the chain it will be found more satisfactory.

Insurance should be awarded on purely business grounds. There is so much competition between brokers that the question of patronage is apt to come up. Personal friendships should not be allowed to influence the decision.

The cheaper policy is not necessarily the better. In a loss, the small difference in premium payments will count not at all. An insurance company can be compared to a savings bank. It is not so much the more favorable rate of interest as the *security* which is desired. It is not wise, therefore, to take the policies of obscure companies, even though they may call for smaller premium payments.

One more caution will not be out of place: Never allow the broker to get a lower rate by some subterfuge. Misrepresentation voids the policy and this will never be heard about until the loss occurs.

Insurance against Fire.—In general, it is unwise to take any part of the fire risk. Over-insurance is better than under-insurance. This statement applies most particularly to local chains whose stores are situated near each other. The statement may be modified for the larger chains. For example, it may be advisable to assume the initial risk, say of a few thousand dollars, for any given store and to insure the excess over and above that amount. This will give a lower insurance cost and may prove cheaper in the end. It should not, however, be resorted to unless the locations are fairly well distributed. There are some chain stores having as many as ten stores in a given conflagration area and risks of this sort are too dangerous for any but an insurance company to carry.

At first thought, it would seem reasonable to suppose that a large chain could carry its own insurance more cheaply than the same security could be had of insurance companies. But, as insurance is based on averages, a series of losses may occur which would cripple the organization, and, therefore, even the largest chains cannot expect to insure themselves entirely—that is, assume their own risks. The fire insurance company which did not have more locations than the largest chain store organization

would be a small one and its losses would soon lead it into bankruptcy.

Chains whose member stores number in the thousands are comparatively few. Chains in the hundreds are still exceptions, so that, for the great mass of chains, complete insurance against damage by fire is highly to be recommended.

Real Estate Insurance.—As was noted in the chapter on Locating the Store, chain store systems may have to enter the real estate business themselves in order to get the most desirable locations for their own stores, that is, it may sometimes become necessary to purchase or to take the lease of an entire building, or at least of more space than is actually needed, in which to conduct a link in the chain store system. This brings up questions of real estate insurance. Among the forms of real estate insurance commonly carried are fire insurance on buildings, rents, leasehold interest, and improvements.

1. *Building Insurance.*—If a lease of an entire building, and, almost invariably, if what is known as a ground lease is taken, the lessee (the chain store system) is required to keep the building insured for the benefit of the landlord. If, when making the lease, the fire clause does not provide that the repair or rebuilding of the premises shall be performed by the lessor (the landlord), insistence should be made upon providing that the building insurance should be in the names of both landlord and lessee as interest may appear. Building insurance frequently contains a "loss payable" clause in favor of a mortgagee. It is important to note that it is not necessary for the mortgagee interest to appear in all policies, but only in as many as may be required to make up the amount of the mortgagee's interest. In other words, to have a mortgagee clause or designation in some policies and not in others does not render the insurance non-concurrent.

The amount of insurance is important. If the lessee is responsible for a deficiency of insurance in case of loss, it is advisable to insure for full insurable value regardless of any co-insurance clause. One hundred per cent co-insurance should never be used in building policies. Insurable value is not replacement value, but replacement value less depreciation. Recently, it has become possible to carry insurance against loss from a fire due to depreciation, but prior to that time a loss due to

depreciation had to be borne by the lessee or the landlord, according to the terms of the lease.

2. *Rent Insurance*.—There are several forms of rent insurance—rental value (occupied or vacant), rent (occupied only), and leasehold interest (rent paid in advance). It is sometimes difficult to know which form should be used. Generally speaking, the *rental value* form should be used in the following two cases:

a. When an owner leases a building to a number of tenants whose leases contain provision for abatement of rent in case of untenability due to fire and for termination of lease with or without refund of rent paid in advance.

b. When the lessee of an entire building, under a fire clause providing for an abatement of rent, leases various portions to different tenants with a provision in the lease for abatement of rent in case of untenability due to fire.

The *rent* ("occupied only") form should be used where an owner leases to a single tenant under the conditions above described, or where a lessee of an entire building, under a fire clause providing for no abatement of rent, sublets the entire premises to a third party under terms providing for an abatement of rent. In many insurance jurisdictions there is a difference of 25 per cent in the rate between the two forms in favor of the "occupied only" form, which should be taken advantage of whenever possible.

Rent Paid in Advance.—Where a lessee is holding under a lease providing for an abatement of rent in case of untenability due to fire, but not providing for refund of rent paid in advance, he should insure under the leasehold interest form.

3. *Leasehold Interest*.—There are several forms of leasehold insurance, including rent paid in advance, anticipated profits, and bonus. The first form differs from the others in that it refers to rents paid or to be paid. The other forms are designed to guard against the loss due to fire through the termination of the lessee's lease, of the benefits of moneys invested, or of profits which, during the term of the lease, would have accrued. The amount collectible under these forms is automatically reduced according to the unexpired term of the lease on any given date.

4. *Improvements*.—Improvements are betterments made to existing buildings, and a lessee may insure his interest in such

improvements against damage to or the loss of them by fire in his own name. A landlord is not generally under the obligation to restore improvements made by a tenant, although an owner usually does so unless the improvements are of an unusual character or expensive. It should be kept clearly in mind that, if a lessee erects a new building on vacant land, this does not constitute an improvement within the meaning of the improvement form of insurance. The same would have to be insured as a building in the name of the lessee *as owner* with a special clause providing that it is standing on leased ground if, by the terms of the lease of the ground, title to the property did not immediately pass to the landlord. If title passed, then the building must be insured as such in name of the ground landlord, and the lessee as interest may appear, *with the consent of the landlord*.

Fire Insurance Policies.—There are two types of general fire policies: first, floater policies, and, second, blanket policies. These are in contradistinction to ordinary policies applying to a specific location. A blanket policy covers, say, any given number of locations in the chain. A floater policy, on the other hand, covers all present locations and any others which may be acquired of the same class. It is necessary, of course, to carry specific policies on warehouses or office buildings where the value of the unit is especially large.

In the larger cities, where the greatest number of chain stores are located, the 80 per cent coinsurance clause is in current use. It is important to make a study of this clause. It does not mean that it is necessary for the chain store organization to carry any part of its risk. As an example of what the clause is, assume that the insurable value of the property is \$10,000 and that \$8,000 of insurance is carried. If a fire loss of anything up to \$8,000 dollars is sustained, it may be collected from the insurance company in full. On the other hand, if only \$7,000 worth of insurance were carried, then only seven-eighths of the actual loss could be recovered, and so on in the same proportions. In other words, the owner must insure 80 per cent of the value of the property if he wishes to collect the full amount of the partial loss. Otherwise, it is only possible to collect proportionately.

Plate Glass Insurance.—Since window display forms such an important part in chain store merchandising, plate glass windows

should be considered in the insurance problem. Chain stores having several hundred stores may perhaps safely assume their risks on plate glass insurance. If the company has been carrying insurance, and wishes to see how it would work out in its own case, it may secure figures for the last two years as to breakages, and get a glass concern to give a figure as to the cost of making replacements. Allow a 25 per cent salvage for glass recovery. Compare the cost of replacement minus salvage with the premiums paid, including the reinstatement premiums (wherever a breakage occurs, it is necessary to get a new policy, and to pay a so-called reinstatement premium).

If the cost in two years is less than the premiums which it would have been necessary to pay, then it may be well to experiment for a year in assuming the risk, setting up on the books a fund to take care of breakages, this fund to be equal to the premiums which would have been paid.

The company can assume such a risk as this because, even though a heavy series of losses should occur, they are limited in any single case.

Public and Employers' Liability Insurance.—Insurance against accident on the premises costs little, and the possibilities of incurring damage suits are great. It is likewise necessary to insure employees under the compensation law. These are cases of protection against events which are not likely to occur, but, in the event of their occurrence, the claim for damages may be large.

In choosing the company in which to take out this class of insurance, the best is none too good. Liability cases give rise to claims which may not be settled for years, and it is necessary to be sure that the insurance company will be doing business at that time. If the insurance company fails, it is well to remember that the liability of the chain organization is not in any way lessened thereby.

Chains in certain lines may find it necessary to carry special liability insurance. For example, chain drug stores should carry druggists' liability insurance against wrong filling of prescriptions and also against incorrect delivery.

Since most chain stores use automobiles for the transportation of goods between stores and warehouses, if not also for retail

delivery, automobile liability insurance should be carried. It is well to have this in the same company which covers the public liability in stores, since there are frequently border-line cases. If two insurance companies are involved, it would permit a dispute, whereas if there is only one company, there can be no excuse for its not shouldering the entire responsibility.

Every accident of any kind should be reported to the insurance company, even though there are no personal injuries. The latter may develop, and failure to give notice may prejudice the insurance.

Other Forms of Insurance.—Burglary and hold-up insurance are almost necessities, especially since it is known that stores operating on a cash-and-carry basis take in a great deal of money.

Protection against messenger and paymaster robberies should also be carried. This may be included on the same policy with the burglary and hold-up insurance.

Life insurance on executives drawn in favor of the corporation or firm may be desirable as a means of offsetting temporary loss of business or the lessened ability of the new incumbent. This is a matter for individual decision.

Group insurance may, or may not, be an important stabilizing factor in labor turnover. Where the wages in a trade are practically fixed, as where employees are unionized, the additional attraction of group insurance may prove alluring. But where there is no fixed rate, the employees seem to prefer an increase in wages rather than insurance protection, regardless of how small this increase may be. That is, the employee of the retail store class prefers the small immediate advantage to the greater advantages which would accrue to his dependents after his death.

Employees will not stick to one chain merely on account of group insurance if they go to another chain which also offers them group insurance. This defect, of course, may be obviated to some extent by making the insurance inoperative during the first 6 months.

Group insurance is a question which affects liability of the company in no way. Its purpose is rather towards making the employee more satisfied and contented, and in reducing the labor turnover. Each chain must decide whether it answers this pur-

pose from the circumstances and factors which bear on its own case.

Bonding Employees.—Chain store employees should, without exception, be bonded. This does not mean that there is a large percentage of dishonesty among chain store employees, but there undoubtedly is great opportunity for dishonesty in various ways, and this should be discouraged by the company in every possible way.

Employees should be bonded not so much on account of the expectation of recovering losses, as for the elimination by the bonding company of dishonest employees. In order to recover losses on a bonded employee, it is necessary to prove dishonesty. Most thefts from chain stores are made in small quantities and the detection of any individual delinquency is difficult. Furthermore, all losses not proved against dishonest employees must be borne by the employer.

The bonding company's real function is to serve as an investigator of the character of the chain's employees. A bonding proposition which does not contemplate a thorough and immediate investigation of the prospective employee's record is valueless. The bonding business is founded on the average honesty of the human being, and its success is determined by narrowing the risk, in so far as possible, through elimination of dishonest individuals.

The way to prevent losses is not to have employees who steal. Bonding is one way of selecting honest individuals, as well as a protection against defalcation.

The Problem of Self-insurance.—Whenever a chain expands to 25 units or over, the question comes up almost at once of the advisability of assuming insurance risks. It is a well-known fact that about 50 per cent of premiums paid to insurance companies are used to pay salaries and overhead charges. A chain system with its widely diffused risks is in somewhat the same position as the insurance company, and many authorities are of the opinion that, provided certain fundamental conditions are observed, the chain of 25 units and over can carry the majority of its insurance itself.¹

¹ For detailed treatment of this subject see article by Chester A. Brown, insurance expert and manager, advisory and engineering department of Alfred M. Best Company, Inc., *Chain Store Age*, April, 1927.

There are at least four points to be considered before assuming the insurance risk:

1. There must be enough stores in the chain so that the spread of value will be sufficient to warrant assuming the risk. That is, a chain of 10 stores would not normally be entitled to assume the fire risk, because the loss of any one of those 10 stores would probably exceed the insurance fund. On the other hand, in a chain of 50 stores, the loss in any one store would be covered by the fund. The rule to follow in this case is that the number of risks (stores) must be sufficient to give a premium income to the self-insurance fund which will be equal to the average risk at any one location.

2. The risks should be fairly uniform. This condition is normally complied with by a chain system, but occasionally there are special stores, the value of which is much greater than the average stores in the chain. Excess insurance may be purchased for these special stores.

3. The hazard must be fairly uniform. It may be that certain stores in the chain are more subject to fire risk than others, and here again the chain must consider whether it is wise to assume the risk itself.

4. The self-insurance fund must be built up so that it will have a sufficient margin of safety to cover not only average losses but the unusual loss. That is, if a year passes without any fire loss, it should not be assumed that the fund is therefore sufficient; on the contrary, it should be increased so that it will cover any loss which might normally occur. As pointed out previously, the funds collected for self-insurance do not have to be so large as premiums collected by insurance companies, since they must cover losses alone.

The *Chain Store Age*, in an investigation of the way 25 chains handled insurance, found 18 stores carried their own plate glass insurance, while only 6 assumed the fire risk. The trend, however, was towards assumption of risk by the chains.

In regard to plate glass insurance, a restaurant chain of more than 100 units found during two years' trial that losses averaged less than 50 per cent of premiums that would have had to be paid to a regular insurance company. A five cent to one dollar chain of 50 stores found that the losses were only a small

part of the cost of premiums. Against this is the experience of a shoe chain of 15 units which found that the time expended in handling replacements was not enough to offset the saving, and returned to a regular company. Here, however, the number of risks was not sufficient. The average opinion is that for the larger chain self-insurance of plate glass saves about 50 per cent of the premium charged by insurance companies.

In regard to fire insurance, the problem is more complicated and the risk, of course, much larger. The restaurant chain quoted before tried out self-insurance for fire over a period of 1 year, charging itself the same premium as was paid to the insurance companies formerly. It ended the year with a reserve fund of \$20,000, the losses being about average. Its greatest danger of loss would be in a general conflagration, and even in such a case no more than two or three stores would be affected.

A shoe chain of 200 units tried out a self-insurance plan for one group of its stores. The insurable value of all tangible assets in each store up to \$7,000 was assumed by the chain, and all excess was covered outside. Here again it was found that, by paying to itself the premiums formerly paid to the insurance company, large reserves were set up.

While the majority of chains realize that considerable savings may be effected by self-insurance, they hesitate to assume the risk without expert advice. In this policy they are amply justified, as putting into effect a self-insurance plan should be done only after the most careful investigation, and after full consideration of the same factors used by insurance companies in tabulating similar risks.

Conclusions.—A chain store system makes use of every economy possible in its effort to make the purchasing and merchandising mechanism 100 per cent efficient. Therefore, it is important to make sure that a lack of protection, where protection is necessary and possible, should not nullify the merchandising economies. That is, insurance should be adequate.

The problem, of course, differs for the chain with three stores and the chain with three hundred—not in principle, but in the variety of risks to be assumed. The larger the company and the larger the number of branch stores operated the larger the opportunity for self-insurance. In the largest chains, there

should be a special department to take care of insurance problems—to decide on the necessity of protection and the amount of insurance which should be carried and the premium it is necessary to pay. But insurance problems should not be neglected. It is worth while to pay for the protection insurance gives.

CHAPTER XXVI

WAREHOUSING AND PURCHASING RECORDS

BY JOHN S. FLEEK

The warehousing question and the purchasing question are closely allied. It is a constant process of check and balance. Stock in the warehouse must be kept at normal and the purchasing department must be informed whenever there is a shortage or threatened shortage in supply. As has been shown in the previous discussion of the principles involved in proper warehousing and purchasing, this problem is one of the most important in chain store practice. It remains for this chapter to throw some light on the practical working out of a typical warehousing and purchasing problem. As grocery chains are by far the most numerous, one has been used to illustrate typical accounting method.

Warehousing and purchasing come down, in the final analysis, to careful records of inventories, receipts, and shipments of goods needed to supply the retail outlets. Stock keeping and stock records should aim to give the buyer the following information:

1. When to buy.
2. How much to buy.
3. From whom to buy.
4. The rate of stock turn.
5. Seasonal variations.
6. Transportation routes and time between order and delivery.

All these questions are likely to come up at any time and the ability to answer them correctly, quickly, and specifically is highly important from a financial point of view. Warehouse accounting is a prerequisite to intelligent buying and the conduct of the business as a whole. It gives the cash value of the goods

on hand and indicates clearly whether the business can stand the strain of further purchases. It also forms a guide to the amount of insurance necessary to carry.

Canned Corn		Size #2	
Curfew Brand		Pkd. 2 doz.	
Mfg. Jno. Jones Co.		Unit	
Page		Maximum 20 cases	
Standing Order		Minimum 5 cases	

Date	On Hand	Ordered	Receipts	Invoiced by
9-1-21	5 cases		9-12-21 15c	
9-15-21	19			A.L.
9-29-21	18			
10-14-21	16			
10-28-21	15			L.K.
11-12-21	14			
11-26-21	10			A.L.
12-8-21	5	12-9-21	10c.	
12-22-21	4			
1-4-22	3		1-8-22 10c.	A.L.
1-18-22	11			
2-1-22	5	2-2-22	10c.	

FIG. 92.—Stock record card.

Stock Keeping and Stock Records.—The question which immediately arises here is how to combine, in the most convenient form, both completeness and simplicity. One form, which may be recommended, employs a 5- by 8-inch vertical card (see Fig. 92) with three main columns "On Hand," "Ordered," and

"Received." A card is made out for every article carried in stock. At the top, this card bears the name and size of the article and the name of its source, whether manufacturer, grower, or broker. Then it gives the maximum quantity of stock of this particular article it is desirable to keep on hand, and also the

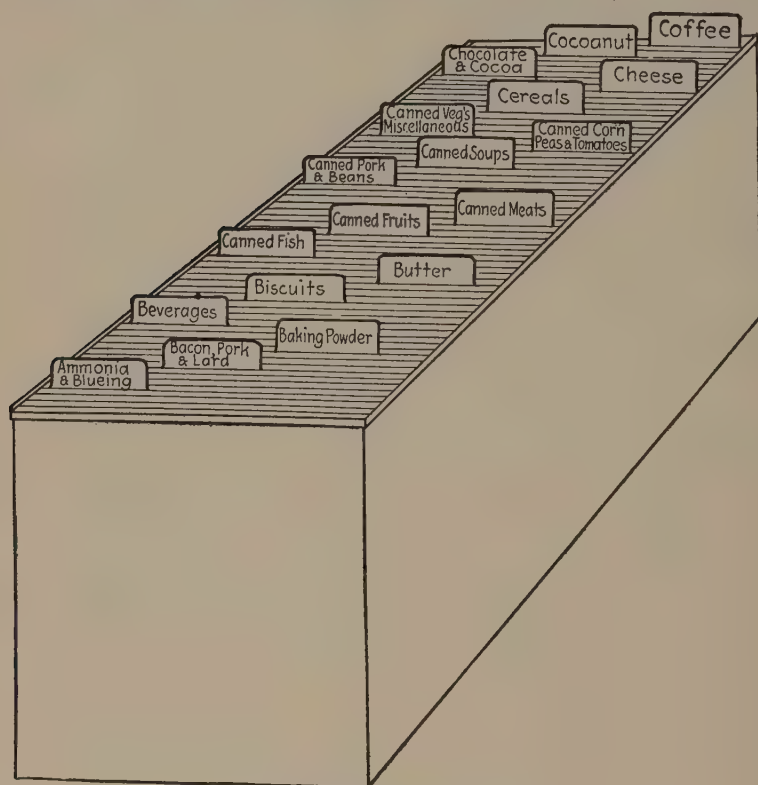


FIG. 93.—Vertical stock card file.

minimum under which the amount of the article in stock must not be allowed to drop.

All articles leaving the warehouse are entered on these cards, which serve to give the buyer information as to when and how much to buy. With some routine buying of steadily moving staple items, a standing weekly or monthly order will serve and, in that event, should be entered on the card. If the man who counts the stock and enters the quantity places his initials

in the last column on the card, responsibility for a proper count is fixed.

These cards are kept in vertical files and indexed by groups, preferably in the order used in the price list. All books or files containing data about the merchandise should be arranged in exactly the same order, so that in consulting the various files or books the least amount of effort will be required. After a clerk becomes accustomed to the order of arrangement, he turns to the item almost automatically.

Figure 93 shows the arrangement of the cards in the vertical file. The headings on the cards, of course, can be varied at will.

Counting Stock.—Readily moving items should be counted weekly for stock on hand. Those with a lower rate of turnover should be counted biweekly, and others only monthly. A schedule can be constructed putting all articles carried into certain groups for stock taking. For example, if business at the warehouse is usually quieter on Tuesday, Wednesday, and Saturday, a schedule can be worked out with this in view as follows:

Bi weekly and monthly schedules taken on Tuesdays.

Groups, V, VI, VII, VIII, IX, X, XI, XII.

Weekly schedules on Wednesdays and Saturdays.

Groups I, II, III, IV.

The contents of the groups would be made up as follows:

WEEKLY	BI WEEKLY	MONTHLY
I. Bacon, pork, lard	V. Baking powder	IX. Ammonia
Biscuits	Canned meats	Beverages
Butter	Canned soup	Canned fish
Cereals	Canned corn, tomatoes,	X. Canned fruits
Cheese	peas	Canned pork and beans
Cocoa and chocolate	Crisco and oils	Canned vegetables,
Coffee	VI. Dried beans and peas	misc.
II. Eggs	Dried fruits	XI. Cocoonut
Flour, meal, etc.	Extracts	Disinfectants and
Milk	Fish, salt	drugs
III. Soaps, laundry	Gelatines	Glassware
Soaps, powder	VII. Honeys, jams, jellies	Paper
Sugar	Macaroni	Polish
Teas	Relishes, pickles, etc.	XII. Soda and lime
IV. Yeast	VIII. Soaps, toilet	Vinegar
Matches	Spices	Woodenware and sup-
Salt	Molasses, syrups	plies
Starch	Tapioca	
Vegetables in season		

Each chain would find it necessary to make many changes in the details of the arrangement outlined above, but the funda-

mental idea can be adopted with little difficulty. On the basis as described here, the following control schedule can be made up for the month.

First week			Second week			Third week			Fourth week		
Tues.	Wed.	Sat.	Tues.	Wed.	Sat.	Tues.	Wed.	Sat.	Tues.	Wed.	Sat.
V VI	I II	III IV IX	VII VIII	I II	III IV X	V VI	I II	III IV XI	VII VIII	I II	III IV XII

Under ordinary circumstances, the buyer would be responsible for having this schedule carried out. He takes the cards out of the file on the proper date and gives them to the stock man. The stock man, in turn, makes a physical count of goods on hand as indicated by the card headings and enters the result of his count. Then he returns the cards to the buyer, who looks to see whether he needs to make any purchases.

If the buyer purchases anything, he records the date and the quantity purchased in the order column (see Fig. 92). When the goods arrive, the clerk who is responsible for receiving goods enters the date of receipt and the quantity. He may enter receipts first on a book and then enter the receipts later on the cards.

Methods of Accounting to Arrive at Cost.—In order to give the management the information it needs to carry on the business intelligently, it is necessary not only to build up a stock system which will show the turnover of each item carried, the time to buy, and the amount to pay, but also, by means of a system of cost keeping, to obtain an accurate record in figures from the accounting department of exactly where the business stands and just what is the cash value of inventories. This information should be current and, to be valuable, must be in strict agreement with the financial books. It should be available not only on the dates when the physical inventories at the warehouse are figured, but at all times. These stated physical inventories should then become only a check on the book values by the actual count of stock. If the system is not defective, and if the discrepancy between cash value of book inventory and cash value of physical

inventory is slight, it is an indication that the records are working accurately. But if the discrepancy is great, there is a possibility of theft, which should be investigated. A large discrepancy usually is attributable either to theft, a poor system, or the careless handling of a good system.

The method here recommended is a simple one that has proved its cost-keeping value in wholesale groceries and chain warehouses.

The foundation of all subsequent accounts for merchandise is based on the correct initial figuring and recording of the cost of merchandising purchased; that is, the entries for merchandise on the merchandise account must be at the correct cost figure.

FIRM	QUAN- TITY	BRAND	SIZE	UNIT	PRICE	MDSE. DISC.	FRT.	CASH DISC.	FIRST COST	CHANGE COST	RE- TAIL	%

FIG. 94.—Page from cost record book.

For simplicity of illustration, various classifications of merchandise are not separated into separate accounts.

A cost record book is kept by the buyer or buyers. This book is indexed in the same way as the price lists and card file. For a sample of convenient headings, see Fig. 94. These include all the necessary information for those who desire it.

When the goods are received, the buyer figures their unit cost (taking net invoice price, not including cash discount, freight, cartage, and the like) and enters such data in the cost record book. At the same time he also enters the selling price in the book. In this way, the cost record book and records hereafter used for figuring the cost of merchandise items in detail will give a unit cost which will correspond in proper ratio to the total cost as entered in the merchandise account by the bookkeeper.

And the above results he writes on the bulletin, discussed in detail later, as follows:

Item	Cost	Retail
Curfew Corn.....	.11	.15

From this the clerks in the office enter the information on their cost and selling price lists.

Now assume that store No. 5 orders five cases of this corn. This order comes in on the regular order blank, which is described in the section on retail accounting.

When this order has been filled and checked out by the shipping clerk, it comes back into the office to the cost clerks to be figured. From their price lists, which correspond exactly with the cost record book of the buyer, they enter as follows:

ORDER BLANK						
Store No. 5						
Units			Cost		Retail	
			Price	Amt.	Price	Amt.
5 Cases	120	Curfew Corn	.11	13.20	.15	18.00
Cost figures—WBC		Posted By GH	Retail.....		\$18.00	
Retail—DEF			Cost.....		13.20	
			Profit Gross.....		4.80	

From this order blank the bookkeeper enters

Mdse. shipment A (Cost)

\$13.20

Mdse. shipment B (Profit)

\$4.80

Store No. 5

\$18.00

Now, suppose the fiscal period is at an end. A physical inventory is taken; and the Curfew Corn is typical of every item in stock. The stock in the warehouse is counted and found to consist of five cases. This quantity is entered on the inventory sheet by the man counting the stock. The inventory sheet is sent to the buyer (or his assistant) to be priced. He refers to his cost record book (if the market remains unchanged) and enters the price on the inventory. It is next extended as follows:

Description		Unit	Price	Extensions
5 Cases	Curfew Corn.....	120	.11	\$13.20
Totals.....				\$13.20

Since the assumption, for the sake of simplicity, is that Curfew Corn represents the whole stock of merchandise, the bookkeeper takes \$13.20 as the total merchandise inventory for closing his books.

It can now be determined how near the book inventory is to the physical inventory. The bookkeeper closes into simple "merchandise trading account" the merchandise purchased and merchandise shipments at cost and freight on purchases.

MERCHANDISE TRADING ACCOUNT			
Purchase.....	\$24.00	Mdse. shipment A at cost..	\$13.20
Fr't. on purchase.....	2.40	Balance.....	13.20
	<u>\$26.40</u>		<u>\$26.40</u>
Book Val. Inv.....	\$13.20		

The book value of the inventory is now seen to be the same as the actual value after a physical count has been priced and extended from the cost record book. In other words, the cost and price lists have been kept in such a way that they tally with the accounts of the bookkeeper. The records used for the daily figuring of merchandise transactions in detail are seen to correspond to the books of accounts, and these figures taken from the

books at any time (on short notice) can give a virtually accurate statement of actual condition. This is of great advantage to the management; for it gives at any time the following data:

1. Cash (book) value of merchandise inventory (warehouse) at cost.

2. Shipments to the company's retail stores at cost and at retail.

3. Book profit (gross) for the whole business and per store.

Price Changes.—The above assumed case is a simple and an ideal one. As a matter of fact, the market is shifting up or down a great deal, and, besides, goods are constantly deteriorating in the warehouse stock. It is necessary, therefore, to set up two more accounts, "warehouse mark-ups and mark-downs" and "salvage."

In the first, suppose that the buyer now purchases 10 cases more of Curfew Corn. This time he pays \$1.80 per dozen, less 20 per cent for it. When he figures his invoice, he finds he must raise his cost from 11 to 13 cents, and his selling price from 15 to 18 cents. Then he makes the following entries:

1. In the cost record book he rubs out the old figures, which were in pencil, and puts in the new ones, in pencil also.

Canned Corn

Firm	Brand	Size	Unit	Price	Mer- chan- dise dis- count	Freight	Cash dis- count	First cost net	Change cost	Sell price	Per cent
Jones	Curfew	2		\$1.80 doz.	20%	\$.01	2%	\$.13		\$.13	22

2. On the daily bulletin he makes the following announcement:

Curfew Corn

Old cost.....	\$.11	Old retail.....	\$.15
New cost.....	.13	New retail.....	.18

The cost clerks get their information and change the price in their books from this daily bulletin. Moreover, the clerk in charge of keeping the retail stores informed of price changes sends them notice of the retail price change by the methods explained in detail elsewhere.

3. On the warehouse mark-up voucher the buyer enters the item and the old and new unit cost prices and difference. He next signs and dates this and sends it to the stock man. The latter at once goes to the pile or piles of the merchandise listed on the mark-up voucher, gets the physical count, and at once turns it back to the proper person in the office, who figures it and then turns it over to the bookkeeper.

The following entries, for example, are made on the warehouse mark-up voucher:

Warehouse Mark-up Voucher					No. 467 Date 3-1-22		
Stock counted	Articles	Old cost	New cost	Mark- up	Am't.	Extension	
5 Cases	Curfew Corn	.11	.13	.02	120	2.40	
Totals....						2.40	
		Stock costed on.....by Mark-down figured.....by..... Entered mdse. cost.....by..... Entered cost book.....by.....					

The bookkeeper now enters:

Warehouse Mark-ups and Mark-downs

No. 467 MU.....	\$2.40
-----------------	--------

Now suppose the 10 cases ordered the second time come in, and five cases are again sold to store No. 5. And suppose that immediately after this comes the periodic physical inventory of the warehouse stock at cost. The books should show the following:

Merchandise Purchases (Billed cost)

Inventory.....	\$13.20
Second Lot Purchased.....	28.80

Freight and Cartage on Mdse. Purchased

Second lot Frt.....	\$2.40
---------------------	--------

Merchandise shipments A (at cost)

Store No. 5.....	\$15.60
------------------	---------

Merchandise shipments B (profit)

Store No. 5.....	\$6.00
------------------	--------

Store No. 5

Mdse. Shipments.....	\$21.60
----------------------	---------

Mark-ups and mark-downs

No. 467 MU.....	\$2.40
-----------------	--------

By transferring these into a single merchandise trading account:

Merchandise Trading

Inventory.....	\$13.20		
Second lot purchased.....	28.80		
Freight second lot.....	2.40	Shipments A (at cost).....	\$15.60
No. 467 MU.....	2.40	Balance (bank inventory)...	31.20
	<u>\$46.80</u>		<u>\$46.80</u>
Inventory.....	\$31.20		

This gives a book inventory at \$31.20. By actual count there should be 10 cases in stock. The counter enters this on an inventory blank and sends it to the office to be posted and extended. The buyer enters the cost from the cost record book at 13 cents per unit and extends as follows:

10 cases Curfew Corn—240 cans .13—\$31.20

Similar entries on the credit side of the ledger should be made for a mark-down.

Salvage.—The “salvage” account is set up for the following reasons and in the following way:

Suppose that, out of the 10 cases of Curfew Corn, 24 cans, or one whole case, spoiled while in the warehouse before inventory. How is the merchandise to be credited? If the cans are “dumped” and no count taken, there will be a discrepancy between book and physical inventories. Therefore, a salvage account is set up, and, to take care of this, a system of records, known as “salvage vouchers” is inaugurated.

SALVAGE VOUCHER

No. 40		Folio No		
To.....		Date		
Condition	Quantity		Cost Price	Extension
Disposition.....		Entry made on books of account		
By.....		By.....Date.....		

The stock man has a supply of these vouchers. As soon as he finds any articles spoiled or damaged, he takes them out of the main stock and segregates them in a separate section called “the hospital.” At the same time, he fills out a salvage voucher and sends it in to the buyer or merchandise manager. The latter inspects the goods and determines whether or not they have a salable value. He then orders disposition of them (whether to be dumped or held in hospital for sale at a price), indicates this on the salvage voucher, and brings the voucher into the office, where it is figured and turned over to the bookkeeper. “Mer-

chandise" is credited with the entire amount and "salvage" is charged. If goods in the hospital are subsequently sold, salvage is credited with the amount they have brought in.

If it is assumed that the loss is 24 cans of Curfew Corn, the accounts are:

<u>Merchandise</u>		<u>Salvage</u>	
Salvage.....	\$3.12	Curfew Corn.....	\$3.12

In order to obtain uniformity, economy, and standardization, warehouse mark-down and mark-up vouchers, warehouse salvage vouchers, and warehouse credit memos should all be of the same size and fit the post binders. If a physical inventory is now taken, nine cases of Curfew Corn will be found in stock. Extended at 13 cents per can, they amount to \$28.08. Thus the merchandise account closes correctly.

MERCHANDISE ACCOUNT

Inventory.....	\$13.20	Shipments A (at cost).....	\$15.60
Second lot purchased.....	28.80	Salvage.....	3.12
Freight.....	2.40	Inventory balance.....	28.80
Mark-up 467.....	2.40		<u>\$46.80</u>
	<u>\$46.80</u>		
Inventory.....	\$28.80		

The greatest service the salvage account and the salvage system renders is that it informs the buyer of spoilage, in whole or in part, as soon as it comes to the attention of the stock man. By this means, damaged goods can often be sold at once at a price, whereas otherwise the goods might not be discovered until all salable value has departed. When goods are sold from "hospital," salvage is credited and the buyer can reduce his salvage losses. This is particularly true for vegetables, fruits, cheese, meats, butter, dried fruit, etc.

Processes Involved in a Typical Purchase.—It seems appropriate before leaving the warehouse problem to include a few remarks regarding processes involved in the typical purchase and receipt of goods. This will show how the various procedures

above mentioned dovetail into one another and tend to make the whole central organization function properly.

The buyer learns from an inspection of stock cards (or daily shortage list on daily executive report explained later) and subsequent reference to cards that it is time to make a purchase of a certain article of merchandise. From the information the stock card gives him, showing the average weekly, monthly, or seasonal sales of the past, the buyer determines what quantity to purchase. He then writes the order on his duplicate purchase order, referring to his cost record book for the previous cost, if need be. In the "Ordered" column of the stock card, he enters

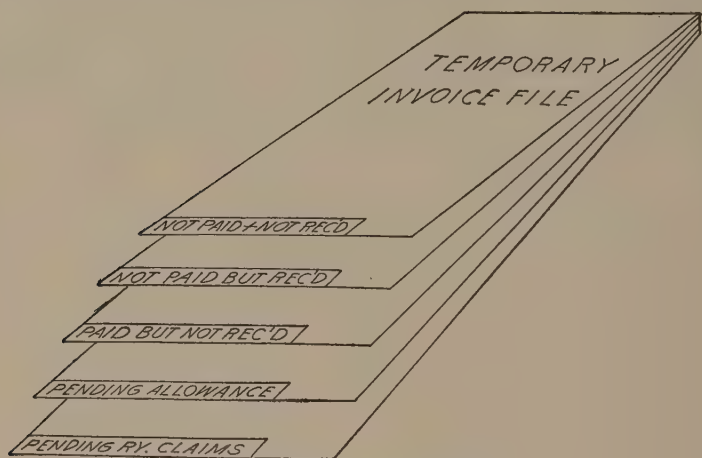


FIG. 95.—Temporary invoice file.

the date and quantity ordered. One copy of the purchase order he keeps in his loose-leaf binder (preferably indexed alphabetically according to firm name of source). The other copy he sends to the source—the manufacturer, the grower, or the broker.

In a few days, confirmation arrives from the manufacturer, and the buyer notes this on his retained copy of the purchase order and attaches confirmation to it. Later, the invoice arrives. The buyer should now compare the invoice with his purchase order and check prices, discounts, and terms, marking on the purchase order the date of shipment. It is recommended that the buyer have loose-leaf binders for his copies of purchase

orders, one for current orders not completely shipped, the other for orders completely shipped.

If there are no discrepancies, he puts his O. K. on the invoice, notes in it the discount date, and turns it over to the clerk in charge of the temporary invoice file.

The temporary invoice file should be arranged with the following sections (see Fig. 95):

1. Invoices not paid and not received.
2. Invoices not paid but received.
3. Invoices paid but not received.
4. Invoices pending allowances or disputes.
5. Invoices pending claims against carriers.

In each of these sections the invoices are to be kept loose and arranged alphabetically by commodities, in the same order as the price list and stock record files. This arrangement standardizes and facilitates the work of the clerk making entries. This provision gives a regular arrangement for every article carried, and the clerk, as stated previously, turns automatically to the right page. The office clerks have a mental picture of the order of the price book, so that when they think of any item they immediately associate it with the standard place in the registered order of the lists and files.

By having five separate sections, provision is made for paying invoices on the discount date, even if goods are not yet received, and for holding invoices pending a settlement before putting them in the permanent invoice file and, most important of all, for separating the invoices of goods received from those of goods not received. This last feature greatly aids the clerk who is checking receiving records against the invoices.

To return to a strict discussion of the typical course of a purchase and receipt of goods, when the articles arrive at the warehouse, the stock man enters the quantity and condition on his receiving record, as described heretofore, and the duplicate copy of this he sends to the clerk in charge of the temporary invoice file. This clerk turns to the section "Invoices not paid and not received," picks out the invoice of this shipment, and stamps it received. He now enters the date and quantity in the "Received" column of the proper stock card and then

turns the invoice with attached freight or cartage expense bill over to the buyer.

The buyer now refigures the net unit cost per item on the face of the bill and compares this with the figures on his cost record book. If there is any change, he takes the necessary

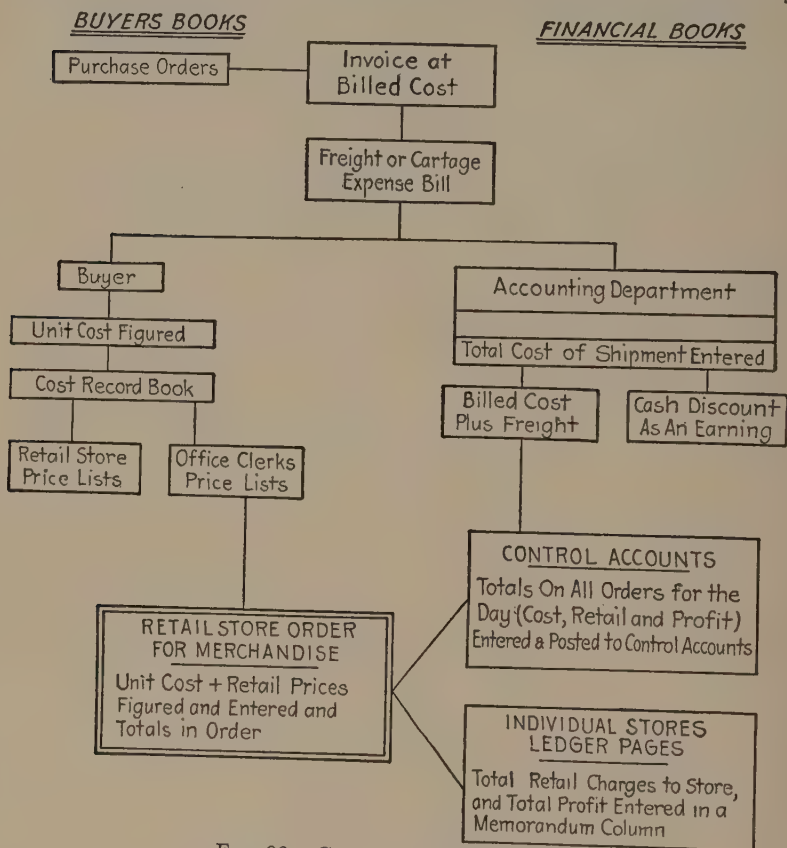


FIG. 96.—Course of purchase order.

steps by means of the mark-up and mark-down vouchers and bulletins, to bring all cost and selling price lists uniformly up to date, and then turns the invoice back to the clerk.

If the goods are in stock for the first time, a new entry is made on the cost record book, and the information is put on the bulletin so that the addition will be made on all lists. The

clerk now puts the invoice in its proper section of the temporary invoice file awaiting payment. In this case, it would go into Section Two.

This clerk is responsible for seeing that invoices are paid at the proper time. One of his first duties is to go through the file and turn over to the bookkeeper for payment all the invoices due that day. The bookkeeper, after paying them, stamps them paid, and turns them back to the clerk who puts them either in the temporary invoice file (if goods are not received, or if some question is pending), or files them away in the permanent file.

Conclusions.—This chapter finishes the technical discussion of stock keeping, stock accounting, and purchasing records. The three are interdependent in the processes of handling the merchandise from its source to the retail store. Figure 96 shows in chart form the various phases through which an order for purchase passes before the receipt of the goods is finally checked off on each individual store's ledger. This chart might be used for other types of chain stores, and is not necessarily confined to groceries, although if it were used elsewhere there would have to be modifications.

The forms shown in this chapter are illustrative of a method now in use and should be used suggestively rather than copied exactly. If it merely indicates some ways in which a present system may be made to function more efficiently, the detailed explanation given will have served its purpose.

CHAPTER XXVII

SUPERVISION OF RETAIL OUTLETS

BY JOHN S. FLEEK

This chapter contains a model system for controlling retail outlets as used in a moderate-sized grocery chain. Other methods are outlined in other chapters, but for a better understanding of the subject it has been thought wise to follow one system and one definite example throughout the whole process, in order that anyone really interested in the continuity of the routine followed may find it easier to understand.

The framework of sound accurate accounting methods and of direct merchandise price control must be supplemented by frequent inspection in person by the store's superintendent and the chief executive.

As the organization assumes larger proportions, the executive finds that haphazard supervision of checks and balances and policing can no longer obtain if he is to have efficient control of his business. A regular routine of duties needs to be established so that the individual store account will show actual conditions, the store managers will sell articles at the price determined upon, and the superintendent and his assistants will follow the stores properly and see that instructions are being obeyed.

Uniform Pricing.—Uniform retail prices, as fixed by the central office throughout all the branch stores, are brought about by the following means:

1. Price lists.
2. Daily bulletins.
3. Retail mark-up and mark-down notices.
4. Weekly change sheets.

Prices are established and proceed from the merchandise department. The buyer figures a unit cost on each article and then, by himself or by the advice of the executive department,

the selling price ("retail"). Both these figures are entered in the cost record book—see Fig. 94—which becomes a fountain head of all knowledge to the organization, in so far as merchandise prices (cost and retail) are concerned.

The office figuring clerks and superintendent are given complete price lists of all articles carried, for these individuals must have constant records of such information.

Retail store managers are likewise given complete price lists, which are virtually copies of the cost record book, and identical with the office price lists, except that only the retail prices appear therein. The store managers thus know the price at which to sell every item and can put price tags on their shelves accurately.

Were it not for the fact that prices are constantly changing and articles being added to or taken from the selling list, the problem of price control would be solved merely by issuing the lists to the retail managers. But the solution is not so easily achieved and the problem thus becomes one of providing for getting the changes that are known in the office and there recorded in the cost record book to all the books of all the retail store managers. This dissemination of information is brought about by means of (1) the daily bulletin, (2) the retail mark-up and mark-down notices, and (3) the weekly change sheets.

1. The daily bulletin is kept in a diary form at a central point in the central offices, so that the office clerks may have ready access to it. In it the buyer enters changes in cost and selling prices of the articles carried in stock from the data on his cost record book, and makes notation of new goods just arrived, giving their cost and selling prices, and of goods no longer carried. The office figuring clerks make the changes on their price lists from this information and initial the entries on the daily bulletin to show their responsibility for having brought the lists up to date.

In order that this information may reach the stores at a given time each day, it is the duty of one clerk to make copies of the daily bulletin page, recording only retail prices, and to send them to all the retail managers.

If speed is desired in transmitting the price changes, the retail managers can be given the latest prices over the telephone, the messages being confirmed later by a copy of the bulletin.

2. The same clerk makes out mark-ups and mark-downs and prepares notices for all the stores from the information on changes. When the store manager receives a mark-up or a mark-down notice, he counts his stock of the articles enumerated, signs the slip, and returns it with his next daily report showing the additional merchandise charge or credit on this report (see Fig. 97).

3. Weekly change sheets are made out every Saturday and mailed to the retail store managers. Figure 98 shows a form in

MARK-UP VOUCHER

№ 203

[illegible]

FIG. 97.—Mark-up voucher.

use in a grocery chain. These sheets constitute a compilation of all the changes, additions, corrections, and deductions that have appeared on the daily bulletins, and serve as an additional means of verifying the retail price lists and of bringing them up to date. The store manager is held directly responsible for selling his groceries at the prices given on the last change sheet. Consequently, as soon as he receives one, he should at once go over his price list with it, making the necessary changes and corrections.

CHANGE SHEET NO. G AND WEEKLY BULLETIN

Instructions.

This CHANGE SHEET is issued at the same time that PRICE LIST No. 1 is given to you. Go over your price list at once with this CHANGE SHEET and make the necessary additions and corrections on the price list as per instructions in general order attached.

2. These are the changes of the past week. Owing to the length of time it took to get the PRICE LIST printed, it comes to you a week late. Hence you have all these changes to make at once.

3. BISCUIT LISTS for Loose-Wiles and National will be sent out in a few days.

PRICE CHANGES AND ADDITIONS

Ammonia and Bluing

New	Sawyer's Bluing, large.....	.25
	Butter, etc.	

New	Diamond Oleomargarine.....	.31
Change	Butter tubs.....	.63

Canned Goods

New	Star Boneless Herring.....	.19
Change	Red Salmon.....	.35

Change	Tomatoes No. 2.....	.11
--------	---------------------	-----

New	Libby Tomato Soup.....	.08½
-----	------------------------	------

Cheese

New	Blue Ribbon, cream.....	.17
-----	-------------------------	-----

New	Blue Ribbon, pimento.....	.17
-----	---------------------------	-----

Change	Mild.....	.37
--------	-----------	-----

Change	Young America.....	.39
--------	--------------------	-----

Cocoa and Chocolate

New	Bensdorps Cocoa, 2 oz.....	.14
-----	----------------------------	-----

Change	Beck cocoa, unsweetened.....	.25
--------	------------------------------	-----

Change	Beck cocoa, sweetened.....	.29
--------	----------------------------	-----

Crisco and Oils

Change	Mazola, pts.....	.33
--------	------------------	-----

Eggs

New	Monogram eggs.....	.72
-----	--------------------	-----

Fish

Change	Beardsleys Shredded Cod.....	.34
--------	------------------------------	-----

Flour, etc.

Change	King Arthur, 12½.....	1.15
--------	-----------------------	------

Change	King Arthur, 24½.....	2.20
--------	-----------------------	------

Change	Aunt Jemima, pc.....	.20
--------	----------------------	-----

Change	Rice, Flutter, pk.....	.12½
--------	------------------------	------

Change	Corn meal, pkg.....	.05½
--------	---------------------	------

Change	Corn meal, bulk.....	.05
--------	----------------------	-----

Etc.

FIG. 98.—Form of weekly change sheet.

It is understood that prices on these lists will be entered in pencil to facilitate making the many alterations now so frequently necessary.

Thus, by daily bulletins, mark-up and mark-down notices, and weekly change sheets, all price lists in their several degrees of completeness are made to conform with the latest entries on the cost record book, and thus a system of merchandise and price control is established.

Policing of Retail Outlets.—Constant personal supervision and policing of the retail branches is necessary, for in no other

WAREHOUSE ORDER													
Since No. _____		Address _____						Sheet No. _____					
		Manager _____											
DATE ORDERED			DATE RECEIVED		APPROVED		REGISTER NO.		DATE SHIPPED		SHIPPING NO.		
Sprr Check	Quan	Unit	ARTICLE	SIZE	BRAND	Con tained	LOT NO.	Price	COST Extension	Price	RETAIL Extension		
			1										
			2										
			3										
			40										
			41										
[1] RETAIL PRICES CHECKED BY					[2]		TOTAL COST						
[3] RETAIL PRICES POSTED BY					[4] COST BY		PROFIT						
							RETAIL						
[5] COST FOOTED BY					[6] COST POSTED BY		Store No. _____ Receipt Received _____						

FIG. 99.—Warehouse order blank.

way is the central office to know whether instructions are being obeyed and whether the store managers are honest. To provide this, the store superintendent tries to visit each store every day. On such trips he will check up the prices and price list of the manager, will inspect the store for cleanliness, window displays, appearance, and general marketing methods, and will get a check on the cash register.

It is distinctly desirable that the superintendent take a physical inventory of each store at least once a month. This shows up leakage through carelessness and dishonesty in an undeniable manner. If goods are charged against a store at retail from the first of the month, to the amount of \$500, and at the time of

inventory the cash register shows sales at retail amounting to \$400, clearly the store should have an inventory that, when figured at retail amounts, should come to \$100.

Many chains have traveling auditors who visit branch stores at specified or unexpected times and take inventory.

Accounting for a Retail Grocery Store.—In the development of a system of accounts to provide the needed information and checks upon retail outlets, it is well to consider what would happen if a new branch were being opened, which may be called, for purposes of illustration, store No. 35.

The store manager sends to the central office his initial order on the company's order blank (see Fig. 99). The order is registered and goes to the warehouse to be filled. Here the shipping clerk "checks out" the order for store No. 35 as he loads the truck, seeing that the proper quantities and units are entered on the order blank. The driver takes a yellow copy of the order with the goods, so that the store manager can check up the items delivered and can use the blank as a basis for giving a receipt for the merchandise and as a comparison with the charge against his store.

The shipping clerk sends the white copy of the order to the office to be extended. The clerks price and extend the order from their price lists, enter the totals for "costs," "retail," and "profit," and the order is then ready for posting.

Orders for the day are bound and numbered in a permanent folio and thus become part of the quasi-sales book, or folio number being used as a check in posting. Totals for the day are posted to the various merchandise accounts.

Store No. 35

Jan. 1, 1922

Folio No. 46

Unit	Article	Size	Brand	Price	Cost	Price	Retail
100	XX	2½	XX	.80	80.00	1.00	100.00

Total cost.....	\$ 80.00
Total profit.....	20.00
Total retail.....	100.00

An authorized person then inspects the goods and determines whether credit will be allowed. If the credit is O.K'd, it will go to the clerks first to be figured (cost, retail profit) and then to the bookkeeper.

CREDIT MEMO

Cm Folio No. 16

Date Jan. 2, 1921

To.....

Condition	Quantity	Articles	Quantity	Cost		Retail		Profit
				Price	Am't	Price	Am't	
O.K.	10	XXX		.80	8.00	1.00	10.00	2.00

These credit memos are put in a permanent folio and numbered. When the credits are posted, the bookkeeper sends a credit memo post card to the store involved, for its use in checking against its other accounts. The entries are as follows:

In the journal for the entire day, taking totals for the day from the credit memo folio:

January 2, 1922

Merchandise cost.....	\$8.00
Merchandise profit.....	2.00
To merchandise shipments to retail outlets.....	\$10.00

For ledger entry, see preceding page.

The daily report from each manager (see Fig. 100) brings into the office the complete story of the happenings of the day. The retail business is on a strictly cash basis; hence sales are the direct credit to merchandise at retail charged against the store's ledger account.

The daily stores report is in six sections. Section 1 shows goods bought and received by the store manager and mark-ups

MERCHANDISE PAID FOR			
Store No. _____		No. 10460	
Date _____			
MANAGER SIGNS EACH TRANSACTION	\$	Cts.	SIGNATURE
Write Total in Space Below			
TOTAL TO BE ENTERED ON CASH SHEET			O. K.

EXPENSES PAID FOR			
MANAGER SIGNS EACH TRANSACTION	\$	Cts.	SIGNATURE
Write Total in Space Below			
TOTAL TO BE ENTERED ON CASH SHEET			O. K.

REBATES			
(This covers all money refunded or overcharged, and all over-rings on Cash Register)			
MANAGER SIGNS EACH TRANSACTION	\$	Cts.	SIGNATURE
Write Total in Space Below			
TOTAL TO BE ENTERED ON CASH SHEET			O. K.
Superintendent signs after having examined and approved all items in spaces above _____ <i>O.K. for all items-above</i> _____ <i>Supt</i>			

FIG. 100B.—Manager's daily report. (Sections 2, 3, and 4.)

Control—Direct Retail Store Expense						P. 400	
Date				Date			
Jan. 3	c-61		1.00				

Store No. 35 Direct Expense						P. 435	
Date				Date			
Jan. 3	c-61		1.00				

Three other control accounts should be filled in:

Cash Sales of Retail Outlets						P. 100	
Date			Date				
			1-3	c-61	Sales	\$26.75	

Mdse. Purchases by Cash Direct Stores						P. 300	
Date				Date			
1-3	c-61		.75				

Cash						P. 40	
Date				Date			
1-3	c-61		\$25.00				

The next step in the accounting procedure involves the periodic inventory for the retail stores (see Fig. 102 A and B). The superintendent and his assistants drop in at a store without warning and take a physical inventory. This is then sent to the central office and figured at retail by the clerks. When figured, it is turned over to the bookkeeper for entry on the store's account. If all figuring were perfectly accurate and no dishonesty or mistakes occurred on the part of store managers, the inventory amount should correspond to the balance on this store account.

In practice, of course, this never actually occurs. Journal entries must be made to equalize difference between book retail inventories and physical retail inventories.

Assume that on the morning of Jan. 4, before any retail sales are made, an inventory of store No. 35 is taken. When

Book Inventory Charges		INVENTORY		Book Inventory Credits		Statement from Store Receiving Book CHARGES		Statement of Store Credits	
	AM'T	Store No.	Address	Sales to Date	AM'T	DATE	State clearly whether Groceries, Produce, Crackers, Allowances	AM'T	DATE
Inventory Beginning of Month				Reductions					
Warehouse Shipment			Manager	Special Sale Reductions					
Direct Shipment			Taken by	Journal Credits					
Cash Purchases			Assisted by	Sundries					
Journal Charges			Date From To						
Advances			Received in office						
			Date Time						
			Figured by						
			Refigured by						
			O'K'd						
			Date Time						
			Physical Inventory						
			Book Inventory						
			Over (black ink)	Total Credits					
Total Charges			Short (red ink)						
			BOOK INVENTORY						
			Summary Charges						
			Summary Credits						
			balance						
			Book Inventory						

FIG. 102B.—Inventory sheet (back).

figured, this inventory amounts to \$67.65. The bookkeeper would then put the inventory sheet in a permanent file, giving it a number. This, then, becomes the voucher for the subsequent entry on the books on ledger page 142 (see (2), page 434). This being the ideal case, the book balance and the physical inventory agree.

If, now, the management wants to know the profit on the business of store No. 35, it can get a close estimate by taking the difference between the Mem. debit and credit columns for profit on the store's ledger page, and getting the percentage of this figure to the net total merchandise charges for the month. This will give the percentage of gross profit on sales for the month.

After the store has been running for some time, it will be found that physical inventories from month to month are approximately the same. For this reason the percentage of gross profit or net shipments per store per month is substantially accurate for the gross profit on net retail sales.

In order to arrive at the net direct retail revenue per store per month, the direct store expense account is deducted from the amount of gross profit (arrived at as above). Similarly, to arrive at the cost value of the retail store's inventory in making up monthly reports of condition, a close approximation can be had by deducting the same percentage of gross profit from the retail value of the inventory as figured.

The profit on shipments of merchandise to the retail stores for the business as a whole can be taken as the gross profit for the entire chain, thus largely disregarding the retail inventories. But it will be found, as stated above, that, after retail outlets are once established, the total retail store inventories for the entire organization are, in the aggregate, about the same, from month to month. From control accounts, therefore, the monthly merchandise statement for the business can be accurately prepared without considering the retail inventories.

The result would be for a chain, such as has been described, as follows:

Retail value, shipments of merchandise to retail outlets.....	\$.....	
Cost.....		<u> </u>
Gross profits on.....		\$.....
Retail store expense (direct).....	\$.....	
Net retail revenue.....		\$.....
Warehouse.....	\$.....	
Office and management.....		
Fixed charges.....		
Miscellaneous expenses.....		<u> </u>
Total overhead expense carried by retail outlets....		\$.....
Net profit for the company on shipments to retail outlets.....		\$.....
Sales direct from warehouse ¹	\$.....	
Cost on sales from warehouse.....		<u> </u>
Net profit on sales direct from warehouse.....		<u> </u>
Aggregate earnings of the company.....		\$.....

¹ Since wholesaling is not a regular business of the firm, its profits are treated simply as an additional revenue without bearing an allocation of general overhead burden. This is logical because so little expense is involved in making these direct sales.

Conclusions.—This chapter considers the retail store solely from the point of view of the central management. From this point of view, therefore, the branch store is like a private soldier in the army. It must be taken care of, its wants must be administered to, and, like the soldier, it must submit to discipline.

The problem, as it presents itself to the store manager, was discussed in a previous chapter. Here, the sole purpose is to make clear the routine of supervision exercised by the central office in two ways: by personal inspection, and by daily and other reports. If the process seems long and unduly complicated, it must be remembered that this system of accounting must serve as eyes and ears to the chief executive. A store to him is not a personality, it is a link in a chain, and he wants to know whether it is a strong link or a weak one.

It is not claimed that the system for policing and accounting supervision outlined in this chapter is the best or even better than others which have been developed. But to the small chain proprietor, or any retail store owner who desires to branch out with other retail outlets, this chapter should give some definite ideas.

CHAPTER XXVIII

CENTRALIZING EXECUTIVE CONTROL

BY JOHN S. FLEEK

It is necessary to coordinate and combine all the separate activities and functions of the chain. The executive cannot be bothered with detail. He will not gain the benefits of these methods of better administration unless the information collected at various points is concentrated at one place, in approved reports and at specified times.

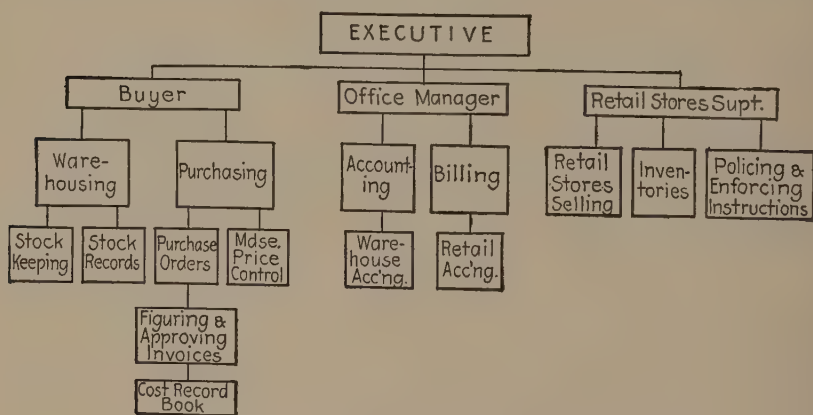


Fig. 103.—Route of statistical information for executive.

It is true that personal foresight at offices, warehouses, and branches cannot be dispensed with by a mere impersonal substitution of routine methods. But, in order that the chief executive may exert his force at the right time and place, such a routine collection of data in the form of reports is almost necessary.

Sources of information for necessary reports for the executive come ordinarily through three channels: the buyer, the office manager, and the superintendent of retail stores. These offices

may, in some chains, be divided or given different terms, but the idea remains the same. The executive must have information obtained from purchases and inventories, finance and accounting, and retail sales by branch stores. Figure 103 shows the progress of information and how definitely the route for each item of statistical data can be traced from the bottom of the organization to the top.

What Information to Get.—The information for executive consumption which it is advisable and easy to compile appears under the following heads:

1. Warehousing and purchasing:
 - a. Is the stock of merchandise being kept up?
 - b. If not, what items are "going short" on orders?
 - c. What is the condition of the warehouse merchandise account, warehouse inventory, etc.?
2. Central offices:
 - a. Are the bill clerks keeping the work up to date?
 - b. Is the accounting department keeping the work up to date?
3. Retail:
 - a. What is the standing of each store in cash sales?
 - b. What is each store doing in warehouse shipments?
 - c. What profit is each store making?
 - d. What number of orders are coming back from each store?
 - e. Are profits large enough to carry overhead?
 - f. What is the condition of retail inventories?

Executive daily reports should, in general, concentrate all essential data on not more than one page. Such reports, when handed to the executive, give him a convenient and portable brief of the condition of his business in all its ramifications. Moreover, a report, to be really effective, must be up to the minute in the information it contains. It should readily reveal any maladministration. It should pave the way for future plans. For this reason, if a daily report arrives 4 or 5 days late, much of its constructive and corrective force is lost, for the evil it presents and emphasizes for correction has probably by that time ceased to be so obtrusively evident.

Daily and weekly reports, therefore, should come to the executive's desk on the day following that for which the figures are entered. Monthly and other periodic reports should be presented within 5 or 6 days after the end of the month. Annual

reports naturally take longer to compile, but they certainly should be completed during the 30 days following the end of the fiscal year.

The Daily Executive Report.—The daily executive report, appearing on the chief executive's desk by the forenoon of the day following that upon which the report is made, gives the brief outline of the course of business during the previous day. From these the executive not only gets a line on his retail stores, the buying, and the accounting department but he knows also that his office force is keeping its costing and pricing, extending, and billing up to date. Otherwise the figures under "shipments," and "direct credits" could not be entered.

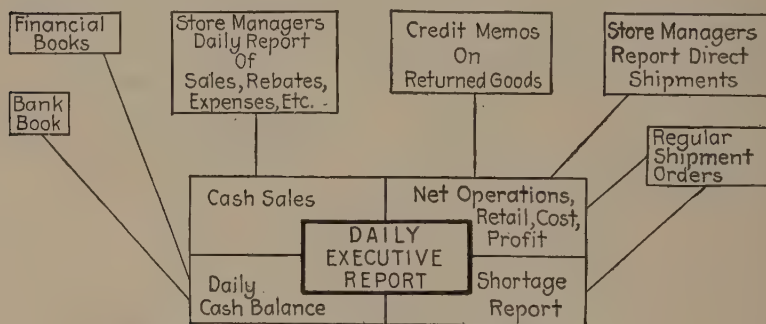


FIG. 104.—Process of making up daily executive report.

Figure 104 shows the procedure required in obtaining the information for the daily executive report as it is made up from the other detailed reports. It shows how the daily cash balance is found by consulting the bank book and the financial books, how cash sales are taken from the daily report of the store managers, etc. By studying this diagram, the apparently intricate processes of coordinating and concentrating accounts become far simpler.

Figure 105 shows one form of daily executive report. This form is made up as follows: As soon as the warehouse shipments on regular retail store order blanks, the direct shipments from store managers' reports, and the credit memos are figured and extended, the order clerks enter the totals for each store in the

appropriate columns and give the algebraic sum (warehouse shipments plus direct minus credits) for the net operations of the day.

EXECUTIVE REPORT											DAY _____ DATE _____	
STORE	PD. VOLT EXP. MDSE	TOTAL CASH SALES	SHIPMENTS		DIRECT CREDITS				NET OPERATIONS			
			COST	RETAIL	COST	RETAIL	COST	RETAIL	COST	RETAIL	PROFIT	
1												
2												
3												
4												
29												
30												
TOTALS												

FIG. 105.—Daily executive report form.

DAY _____ DATE _____		EXECUTIVE REPORT									
DAILY CASH STATEMENT											
FOR BANKS	NAT'L	UNION	CITY	TOTAL BANKS	CASH						
OLD BAL.					OLD BAL.						
DEPOSIT					STORE RECEIPTS						
TOTAL					OTHER RECEIPTS						
CHECKS					TOTAL						
NEW BAL.					PD. MDSE.						
					PD. EXP.						
					PD. OTHER						
					NEW BAL.						
INITIALS											
SHORTAGE											

FIG. 106.—Daily cash statement.

One clerk then goes through the warehouse shipment order blanks and lists, under shortage, on the reverse side of the report, the articles (quantity and retail value) which the shipping clerk has marked "short," *i.e.*, he has been unable to fill the order because the articles asked for are out of stock.

The clerks now send the report to the bookkeeper, who enters the amount of cash sales from the figures compiled from the store managers' daily reports. Next he enters the daily cash balance figures on the reverse side of the executive report (Fig. 106). The report is then complete and ready for the executive. Entries on the report are initialed by the clerks making them. The report can be conveniently placed on three-ring binder paper and kept for permanent record.

Thus, the executive has before him daily in a convenient, compact form a summary of his business and an effective check on its functions. The buyer is checked by the shortage report, the accounting department is checked by the daily cash balance, and the retail outlets are checked by the detailed information on the first page of the report.

The Weekly Report.—Chains vary widely in executive accounting control, not so much in the information desired, but

REPORT OF RETAIL CASH SALES									
WEEKLY FOR THE MONTH OF _____								192	
STORE NO.	COMPARISONS		WEEKLY CASH SALES						TOTAL CASH SALES CURRENT MONTH
	THIS MONTH IN \$2 —	QUOTA CURRENT MONTH	— TO —	— TO —	— TO —	— TO —	— TO —	— TO —	
1									
2									
3									
12									
TOTAL									
WAREHOUSE									
AGGREGATE TOTAL									

FIG. 107.—Weekly cash sales report.

rather in the frequency with which it is desired and the completeness of the detail called for on the executive report. Generally, it is not considered necessary to include any information on weekly reports except that dealing with cash sales. If the other items are not important enough to be listed daily, they can usually be put off until the monthly report.

Figure 108 illustrates a common form of retail cash sales report to be filed in and submitted weekly. It is found convenient to consolidate this weekly report on one sheet for the current

month and with the figures accumulating week by week. Figures for current weeks are compiled direct from the daily executive reports and put on three-ring binder pages for the executive control report book.

As a guide and as a comparison, the first column shows sales for the same month last year, and the second column the quota or mark set for the month this year. The subsequent six columns are for the weekly records of sales and the final column gives the total for the month.

Six columns are given in order to provide for such a month as October, 1921, beginning on a Saturday and ending on a Monday. Weeks are taken as beginning when the month begins and running until the next Saturday or until the end of the month. For example, two of the weeks reported for October, 1921, will contain but one business day.

This cash report gives the chief executive information as to the volume of business his retail outlets are doing, in a desirable form; and in sufficient detail to give him the connecting link between daily and monthly reports, which go more minutely into particulars. These consolidations enable him to ascertain what steps need to be taken immediately to force more sales and a greater turnover, at any one point or throughout his organization.

The Monthly Report.—The monthly report provides a complete analysis and statement of the operations and conditions of business. It gives an operating statement in detail; and moreover combines all this information in a concise form on the two sides of a single sheet of the same standard three-ring binder paper for the executive's control report book. The form (see Figs. 108 and 109) is almost self-explanatory, and is compiled almost entirely from the books of account, although it is possible to check the daily and weekly reports against it.

The cash sales give the needed comparison with profits, years, and quotas, as well as with the volume of shipments appearing in the columns to the right. The inventory column serves to show the turnover of each store. Direct expense is seen on the reverse side (Fig. 109) and is that part of the operating expense which can be chargeable directly to the individual store. It is well to keep this separate from the other entries of expense or overhead; for it might be advisable sometimes to maintain

a store that was doing only a little better than making its direct, or, as they say in railroading, "out-of-pocket expense" and contributing a small amount towards making the total overhead. Though showing a net loss after deducting its ratio of overhead,

EXECUTIVE REPORT FOR MONTH OF _____ 192__											
STORE NO.	CASH SALES				PHYSICAL INVENTORIES DATE AM'T	MERCHANDISE-SHIPMENT-OPERATIONS					
	SALES FOR MONTH — 192 —	QUOTA THIS MONTH	CURRENT SALES NET	GAIN OR LOSS		AT RETAIL	GROSS BOOK PROFIT AM'T %	DIRECT EXPENSE	DIRECT RETAIL REVENUE	OVERHEAD ALLOCATED AT — %	NET BOOK OPERATING PROFIT %
1											
2											
11											
12											
TOTAL											
WAREHOUSE											
AGG. TOTAL											

INCOME STATEMENT		BALANCE SHEET	
AGGREGATE BOOK PROFIT NET		OFFICE CASH	COMMON STOCK
DISCOUNTS EARNED		BANK CASH	PREFERRED STOCK
SUNDRY REVENUES NET		ACCT'S REC'D	SURPLUS
WAREHOUSES		NOTES REC'D	UNDIVIDED PROFITS
MARK-UP		EQUIPMENT	CURRENT PROFIT LOSS
MARK-DOWN		STORE FIXTURES	ACCT'S PAYABLE
CURRENT BOOK PROFIT AND LOSS		WAREHOUSE FIXTURES	NOTES PAYABLE
WAREHOUSE MDSE BOOK RECORDS		OFFICE FIXTURES	OTHER LIABILITIES
INV. BEGINNING MONTH		WAREHOUSE INV.	
PURCHASES AT BILLED COST		RETAIL STORES INV.	
FREIGHT ON PURCHASES		AT COST	
TOTAL		STOCKS & BONDS	
LESS SHIPMENTS OUT AT COST		OTHER ASSETS	
BOOK INV. END OF MONTH			
SHORTAGE TOTAL			
SALVAGE ACCT FOR MONTH			
		TOTAL ASSETS	TOTAL LIABILITIES

FIG. 108.—Monthly executive report.

such a store assists by increasing purchasing power, or, perhaps, by initiating business for the company in a new and heavily competitive locality.

Thus, there must be a control account for direct retail store expense and one for indirect retail store expense. The expense

DETAILED EXPENSE STATEMENT, MONTH OF					
	MONTH		%	TO DATE	%
DIRECT RETAIL EXPENSE					
SALARIES, STORE MGRS.					
COMMISSIONS					
OTHER CLERK EXPENSE					
RENT					
MISC. DIRECT CHARGES					
TOTAL DIRECT RETAIL EXPENSE					
OVERHEAD BURDEN OR INDIRECT EXPENSE					
WAGES-RECEIVING, HANDLING, AND SHIPPING FORCES					
BOXES AND WRAPPING					
OUTWARD FREIGHT AND CARTAGE					
TOTAL, RECV'G, HAND'L'G, SHIP'G EXPENSE					
SALARIES BUYERS					
OTHER BUYING EXPENSES					
TOTAL BUYING EXPENSE					
EXECUTIVES SALARIES					
OFFICE SALARIES					
POSTAGE AND OFFICE SUPPLIES					
TELEPHONE AND TELEGRAPH					
OTHER MANAGEMENT EXPENSES					
TOTAL M'GEMENT AND OFFICE EXPENSES					
INTEREST					
RENT					
HEAT, LIGHT AND POWER					
TAXES					
INSURANCE					
REPAIRS OF EQUIPMENT					
DEPRECIATION OF EQUIPMENT					
TOTAL FIXED CHARGES					
MISCELLANEOUS EXPENSES					
LOSSES BY DEFALCATION					
ADVERTISING					
TOTAL OVERHEAD EXPENSE					
TOTAL AGGREGATE EXPENSE					
NET SHIPMENTS TO RETAIL OUTLETS					
GROSS BOOK PROFIT ON ABOVE					
LESS DIRECT RETAIL EXPENSE					
DIRECT RETAIL REVENUE					
LESS OVERHEAD EXPENSE					
NET BOOK RETAIL OPERATING PROFIT					
BOOK PROFIT ON WHOLESALE SALES					
AGGREGATE BOOK OPERATING PROFIT NET					

FIG. 109.—Monthly executive report (expense statement).

sections on the reverse page of the report give in detail the figures for direct and indirect expense.

This report, as made up, gives the executive an accurate statement of the situation each month and is in sufficient detail to give him adequate data for use in administration.

Figure 110 shows another form of monthly report used where the stock problem is more complicated than in the previous illustration. Here reports are made by departments, as well as

MONTHLY FOR THE YEAR —											
COMPARATIVE NET BOOK PROFITS FROM RETAIL OPERATIONS											
	STORE # 1		STORE # 2			STORE # 35		CURRENT TOTAL		LAST YEAR TOTAL	
	AM'T	%	AM'T	%		AM'T	%	AM'T	%	AM'T	%
JAN.											
FEB.											
TO DATE											
DEC.											
TOTAL											
LAST YEAR											
GAIN OR LOSS											

FIG. 110.—Monthly comparison form (by stores).

by totals. This statement combines comparisons with the actual figures for the month.

Comparative Statements.—In many chain organizations, comparative statements are compiled at specific periods, sometimes weekly, as shown previously, and also monthly and yearly. These statements may show sales, profits, expenses, or other items of interest regarding the stores and their relative standing from different merchandising aspects. Figure 110, for example, shows a form for comparing the net book profit from retail operations by months. Space, as will be noted, is left for reducing all figures to percentages, the form which makes it easiest for the executives to grasp comparisons.

Figure 111 shows another form for making annual comparison of sales, inventory, and turnover of the various stores.

It is apparent that figures such as these are of great importance to executives. They enable them to put a finger at once on all weak spots. If one store falls off in sales while other stores maintain a steady average, this fact shows up at once in the percentage column. The same is true of profits. Although the sales of two stores, in gross amounts, may come to the same figure, the net of profits of one may far outbalance the other and, again, these records should show clearly the reason for this deviation.

YEAR ——— COMPARATIVE RETAIL CASH SALES STATEMENT												
	STORE #1			STORE #5			CURRENT TOTAL RETAIL			LAST YEAR TOTAL RETAIL		
JAN.	SALES	INV.	TURN.	SALES	INV.	TURN.	SALES	INV.	TURN.	SALES	INV.	TURN.
FEB.												
TO DATE												
DEC.												
TOTAL												
LAST YEAR												
GAIN OR LOSS												

FIG. 111.—Comparative retail cash sales statement.

The Annual Report.—Annual reports are similar to monthly reports. They can well include more detail and, of course, are the final figures for the fiscal period, being compiled after an actual physical inventory of the warehouse stock fixtures and equipment, with depreciation and losses charged off. Practically the same form for the annual report can be used as is used for the monthly report.

The necessary forms are:

1. Balance sheet.
2. Income account.
3. Expense statement.

The annual report comes to the executive as a final link in his system of executive control. It also furnishes the ordinary medium by which the results of the year's operations are made public to stockholders.

Conclusions.—By the means and methods that have been described, the chief executive should be able to put into force an efficient and intelligent administration; for he has first set up the proper methods, and the mechanics for doing the necessary routine; and he has then set up the system of reports which show him they are being carried out as he has prescribed.

Thus, warehousing and purchasing and the supervision of retail outlets are coordinated, and the chief executive, with a considerable degree of accurate knowledge, can exert his control and directing force on all parts of his organization effectively.

CHAPTER XXIX

THE MANUFACTURER'S CHAIN

It is necessary at once to sound a caution against confusing chains which manufacture with the manufacturer's chain. The former is primarily a retailing organization and in no case limits its sales to the articles it manufactures. It sells what the public wants and, if it can make the public want goods of its own manufacture, so much the better. The true manufacturer's chain, on the other hand, is limited to a manufacturer who aims to dispose of a part or all of his output through his own retail outlets.

The immediate causes of a manufacturer starting a chain of retail stores may be many, but the majority of them come down, in the end, to dissatisfaction with the methods of distribution. Many companies find the jobber and the retailer extremely unsatisfactory. In times of depression, these outlets become choked, and the manufacturer is compelled impotently to wait until the road is clear. In times of prosperity, jobbers and dealers send in order after order, but when the turn comes they are just as quick with their cancellations.

Manufacturers who start retail stores, therefore, do so usually with the clear purpose of distributing their products more directly. That they have had no retailing experience is too often lost sight of at the beginning. Manufacturing and retailing functions are almost diametrically opposed. It takes a different type of mind in the executive and an entirely different type of organization for these two functions. In addition, there are the ever-present questions of whether manufacturing or retailing is more important to the company, and the question of which one should prevail. Because there are many successful retail chains operated by manufacturers does not alter the fact that the manufacturer has to face an exceedingly difficult problem.

Advantages of the Manufacturer's Chain.—A manufacturer should take careful stock of what is to be gained before definitely

deciding to enter the retail field. In other words, he must budget his prospects. On one side of the page he must put the advantages he expects to gain, and on the other the obstacles which he must be prepared to surmount. He must carefully weigh the results.

The following discussion is based on an excellent article on the subject which appeared recently. In the first place, what can the manufacturer hope to gain by starting a chain of retail stores?

1. If they are properly managed, he should receive almost 100 per cent cooperation in backing up his consumer advertising. This brings out immediately one of the causes of dissension between the manufacturer and the dealer. The manufacturer wants his product given first preference by the jobber and the dealer and the same feeling is shared by his rival manufacturers. This may be obviated by granting exclusive agencies, but whether exclusive agencies are the best form of retail merchandising for manufacturers is open to question.

2. Retail prices can sometimes be lowered. This is a real advantage in any retailing proposition. The chain, however, immediately experiences the condition of affairs encountered by the Regal Shoe Company, where the company was selling shoes in its own stores at less than the Regal agency around the corner. What is the answer? Price is such an important element in chain store competition that the manufacturer might profit by it. Indeed, the ability to sell at a lower price would almost be necessary to make the manufacturer's chain successful in a short time.

3. Any service work demanded by the retailer can be rendered more satisfactorily. Naturally, the management can install the most modern merchandising policies and see that they are uniformly carried out in the stores. In other words, the manufacturer will initiate his own service rather than wait for a dealer who may not see the need for it or, if he does, may not have sufficient interest to bring it to the attention of the management.

4. Substitution can be more surely avoided. The importance of this point will depend largely upon the company's present relations with its retailers.

5. The consumer and his tastes can be studied at first hand. This is a real advantage and one which many manufacturers have taken advantage of. In this case the retail stores are not created primarily for profit and the stores are usually few in number, to be used as laboratories.

6. The product itself can frequently be improved as a result of direct contact with the user.

7. It is possible to develop new sales arguments.
8. The results obtained through the retail stores can be applied in dealing with other retailers outside the organization.
9. Advertising and display material can be made uniform and used to much greater advantage than if merely distributed to agencies or retailers.
10. Road salesmen can be trained in retail stores.
11. By the publicity attained, new dealers may be secured to handle the product.

So much for the tabulation of advantages. The following are some practical advantages, as found by representative manufacturers:

One of the main reasons for manufacturers opening retail stores was the larger volume of sales. In many cases it was a last resource. In some cases, stores in particular communities have been opened only because of the peculiar character of the competition there. They might be called strategy stores. Some stores have been started when a market had to be created for a new product; sometimes when there were no dealers in the field, as with automobiles. Sometimes stores were started when goods were so novel that dealers hesitated to take them up. This was true of Dennison's retail stores in the early days. Dealers would not carry a large enough stock. The present Dennison stores are more like warehouses than stores.

As far as reducing the retail price is concerned, one company was found which had succeeded in selling its goods at from 15 to 20 per cent less.

There are technical products which demand service. The Waterman Fountain Pen Company has several retail stores. Yawman and Erbe, and the Library Bureau are further examples.

Manufacturers' stores may serve as experimental laboratories and training schools for salesmen. The manufacturer can study the buying public through his retail stores. S. E. Summerfield, president of the Gotham Hosiery Company, says that through his New York stores he can get information regarding public taste he could not secure in 5 or 6 months through other dealers.

Chain Shirt Shops were created to try out the selling of Olus combination shirtwaist and drawers for men, which had not

worked well in the regular trade. They did not work here either, but the retail stores are excellent outlets for other kinds of men's wear. The Dennison stores, according to Advertising Manager Schuyler Van Ness, are used as laboratories to get first-hand criticism of goods from home consumers. Defects can be discovered immediately.

Some manufacturers have found that one of their stores conducted profitably is of more value in convincing retailers of the value of the product than anything else. The Gotham stores are frequently visited by buyers. The retail store often gives the product backing in the eyes of the public.

The Redfern Corset Company's stores are maintained almost entirely to train dealers' department heads and saleswomen in the art of corset fitting, alteration, merchandising, and stockkeeping.

When Dennison moved the location of his Philadelphia store, a near-by retailer threw out his entire department, and a year later put it back with double the size because of increased calls for Dennison goods.

These experiments have been cited at length because they illustrate the variety of uses to which the manufacturer may put his retail outlets. The manufacturer who is thinking of starting a chain of retail stores should take all these points into consideration.

Disadvantages.—The disadvantages which the manufacturer must overcome when starting retail stores are so serious that it becomes a desperate remedy for a situation which can be solved in no other way. The disadvantages may be listed as follows:

1. It has taken years in nearly every case to get stores on a paying basis. Many times they have been operated at actual financial loss.

2. There is always the danger of trying to compete with the company's own retailers unless, like Browning, King and Company, the retail stores absorb the company's entire production.

3. Frequently the retailers object strongly to a retail store operated by the company and, while the stores of the company may be successful, sales may fall off sharply in agencies.

4. Since the manufacturer must maintain the highest standards in his stores, he has a high overhead.

5. The chain must obtain the services of an experienced retail manager. This is essential. The manufacturer himself is not competent to look after the retailing end of the business. The whole question of the personnel becomes more difficult, owing to the lack of personal relations between the management and the retail end of the business.

6. The manufacturer is limited to his own line of goods. In this way he may be at a disadvantage in comparison with independent dealers or chains. It is also claimed that the manufacturer's chain does not respond quickly to change in public taste, because the initiative generally comes from the manufacturing instead of the retail end.

The manufacturer can now see just what points he must consider before starting a retailing venture. In nearly every way he is at a disadvantage when compared with the retail chain selling the products of others as well as its own, but the fact that successful chains are run by manufacturers is sufficient evidence that the enterprise is by no means hopeless. The manufacturer must weigh the following points:

1. What is my purpose in entering the retail field?
2. Is there no cheaper and easier way out of the difficulty experienced in distributing or selling the product?

Organization.—When the manufacturing end is in control, chain organization may differ in various ways. The essential point is the degree of control exercised by the directors of the manufacturing company and, in some measure, the degree with which they exercise the power actually in their hands.

Following are some of the ways in which the retail outlets and the manufacturing enterprise can be and are coordinated:

1. Where the whole output of the factory is sold through retail outlets of the company. This is the simplest form of manufacturer's chain because it eliminates the intricate dealer and agency question. In this class come such chains as Browning, King and Company, who started in 1868 to retail their own products and now own 17 stores. The Library Bureau for 40 years has followed the policy of selling all its goods through its own stores. The Singer Sewing Machine Company, with 6,000 stores in all parts of the world, and 1,800 in this country alone, is one of the most imposing examples of a successful manufacturer's chain.

2. Chains which sell through their own retail stores and also through independent retailers or agencies. Most manufacturers' chains fall under this classification. The W. L. Douglas Shoe Company, the Regal Shoe Company, A. G. Spalding and Brothers, are examples of this type. Naturally, such a system involves much more accounting than the first type. In such cases goods are billed to member stores at wholesale rather than at retail prices, to avoid a double system of accounting at headquarters.

3. There is the further type of manufacturer's chain, small in size, which is not designed primarily for retail outlets. The Gotham Hosiery Company is an example of this type. Sales for 1921 through its three retail stores in New York amounted to over a million and a half dollars. In the tiny shop on West Thirty-fourth Street there are 18 salesgirls placed as close to each other as they can stand. Nothing is sold but Gotham Hosiery and, as there is little looking around or pricing, the turn-over is exceedingly rapid. Warner Brothers Company, makers of Redfern corsets, have stores in New York City, Chicago, and San Francisco. The Sherwin Williams Company, paint manufacturers, have retail stores in many cities.

Many manufacturing companies are run under the committee plan, by which the heads of the organization, in conference, map out procedure and development. Naturally, they attempted to extend this plan to the retail stores, but found it did not work. Chain stores need centralized control, chiefly because they themselves are so scattered that there must be some well-defined bond holding them to the central organization. A committee is too impersonal. It is too cumbersome. It takes too long to function. It cannot keep pace with local conditions. Every chain should have some sort of executive in charge who knows his business and who is in direct control of an able staff of subordinates.

Some manufacturers' chains have solved the problem of organization by forming a separate holding and operating company to manage their retail outlets. Whatever form of control is chosen, it should always be borne in mind that the selling and the manufacturing must be divorced and that, if either is to furnish initiative for change in policy, this should preferably come from the retail end as being closer in touch with public demand.

The Product.—R. A. Bruce says that, for chain store purposes, products must be divided into two classes:

1. Convenience goods, which can be sold without disturbing existing distribution to any great extent.

2. Articles demanding personal service which will interfere with existing trade relationships.

In the first case it is perfectly possible for Page and Shaw to have a retail store of its own in the middle of a block and to have agencies in two drug stores, one at each end of the block, because candy is a convenience article and people buy it wherever they are.

In the second case people will go out of their way to get a particular article. The manufacturers of shoes operating retail stores and also giving agencies have this problem.

The product can be considered in a different light, however. If the manufacturer makes a product which is extremely limited in its use, such as a door hinge, it is quite evident that a chain of retail stores would not be worthy of serious consideration. His logical outlet is the dealer and his logical appeal to the public is through advertising.

But where the product itself is the entire output of an industry, as are shoes, hats, shirts, clothing, etc., it is equally evident that the product is fitted for sale through a manufacturer's chain. That is, as far as the product itself is concerned, there is sufficient demand from the public to support a store dealing exclusively in this product.

Stock Control.—One of the greatest problems of the manufacturer's chain is to balance its stock so that all customers may be satisfied without leaving a large quantity of goods in stock. It is necessary to find some method of securing equal turnover in all lines. This result has been accomplished to a great extent by the Regal Shoe Company. By making a tabulation of the sizes of men's shoes sold in the company's stores over a number of years, it was found, according to the account in *System*, that 62.26 per cent of sales were made in the 18 best selling sizes, 23.09 per cent in the 17 next best selling sizes, and 14.65 per cent in the remaining 67 sizes. The results for women's shoes were even more conclusive. In the 90 sizes carried, 87.57 per cent of sales were made in the 33 best selling sizes, and 12.43 per cent in the remaining 57 sizes.

Figure 112 shows the charts which were drawn to indicate the exact percentage of business done in each size. Figure 113 shows the usual order of 60 pairs in a single style and the distribution according to sizes. According to E. J. Bliss, president of the company:

It shows 1 pair of 5C to 3 pairs of 8C. Let us assume that a retailer buys ten spring styles—60 pairs each on the regular run. This will give him 10 pairs of 5C and 30 pairs of 8C. But the results of our studies show that this is all wrong. He should have 110 pairs of 8C (instead of 30) to balance his 10 5C's, or only 3 pairs of 5C (instead of 10) to balance his 30 8C's. He is bound to have sizes left over.

SIZE SHEET																			
STORE No.	<i>Average 60 pr. Size Range</i>															DATE _____			
	2	3	4	5	6	7	8	9	10	11	12	13	1	2					
AA																			
A							/	/	2	2	/	/	/						9
B						/	/	2	3	2	/	/	/	/					13
C				/	/	/	2	3	3	3	2	/	/	/					23
D				/	/	2	2	3	2	2	/	/							15
E																			
EE																			
STOCK No. _____ STYLE _____															TOTAL <u>60</u>				

FIG. 113.—Distribution of order for 60 pairs of shoes of a single style according to size. (*System.*)

A control board was devised for each store, divided into 102 squares representing the 102 sizes carried in men's shoes. A number of washers, each of which represents a pair of shoes, or a certain number of pairs of shoes, according to the size of the stock, are slipped over metal pins projecting from each square. Each store has a standard stock and each pin is regulated in length to take the exact number of washers indicating the pairs of shoes which should be in stock. If a bare portion of pin shows, then the stock is not complete.

The Agency Problem.—To what extent can the manufacturer compete with himself? When the field is already supposedly occupied by retailers handling his products, is it possible for him to start his own stores in such a way as to keep the loyal cooperation and help of existing agencies? This is a problem the individual manufacturer must solve in his own way. It is difficult to see how a certain amount of friction can be avoided. A retailer

will naturally resent the entrance of the company into his district with a retail store of its own. He feels that it is going to affect his business adversely. Whether it does or not depends largely upon the company and the assistance it gives the agency when compared with the assistance rendered its own stores.

The Regal Company for a long time maintained two separate policies in regard to its own stores and its agencies. Then it was discovered that customers often had to pay more for their shoes at the agencies than at the company's stores. The whole problem was thoroughly investigated and it was found that the agencies were getting little or no cooperation. As a result, the policy of the company was reversed. The agencies were, to a certain extent, taken into the company. Their own store managers were ordered to give the fullest assistance to the local agency. The district managers were told to give the problems of the agency the same attention they would give the problems of the store managers. An attempt was made to make the agencies feel the company was working with them rather than in competition with them. The most important concession was a leveling of price charges, so that the agencies obtained shoes at exactly the same price at which they were delivered to the company's own stores. Furthermore, the company's stores were made warehouses from which agencies could draw in emergency for supplies of shoes, thus avoiding the necessity of waiting until the company's nearest warehouse could ship the goods, and perhaps saving many sales. A policy such as this is bound to work out to the benefit of both parties, since it is based upon teamwork and cooperation rather than upon competition.

The Personnel.—As in the normal retailer's chain, the personnel is the weak link. The company must pay high to secure good men. They should be given a share in the company if possible. It is difficult to get good men because, in the upper ranks, few chain executives shift from one company to another. Their interest in profits keeps them attached to one concern. When a manufacturer starts a chain of stores, he is naturally prompted to look outside for his men. Whereas a retail chain can start with one link and train men, he must secure men trained elsewhere, especially since he has not the requisite retail knowledge to train them himself.

When the company has secured a man whom it believes capable of taking full charge, he should be allowed to have considerable latitude. He knows, supposedly, a great deal more about the problems the manufacturer will have to encounter in his new undertaking than anyone in the company. If the company has chosen its man wrongly, it can dismiss him and choose another man, and this is far less harmful than hampering him at every step with commands and suggestions. One good plan would be to appropriate a certain amount of money and then tell the retail manager to go ahead on that basis, rendering strict account of expenditures at frequent intervals.

What has been said in other chapters in regard to the personnel will apply equally well here. To all intents and purposes, the member store is run exactly as the member store of a retail chain. There is a manager with a share in the profits and clerks who probably receive some sort of a bonus for sales.

The manufacturer may think it necessary to maintain one or more stores at a loss, because of competition or because it is desired to open up new territory. In this case some arrangement should be made by which the manager of the local store which is not earning money, should be recompensed proportionately to his effort. This is especially important, as it would pay to have a good man located at this point.

The Operation of Manufacturers' Chains.—It may be of value to present some of the aspects of chain store operation as applying specifically to the manufacturer's problem. These may be grouped under the following headings:

1. Territory.
2. Purchasing.
3. Accounting control.
4. Sales policies.
5. Advertising.
6. Direct advertising.

1. *Territory.*—Every manufacturer's chain is a potential national chain, although, in actual fact, the retail stores may be grouped within a small radius and the rest of the country covered by agencies. Yet by these agencies the company has paved the way for the installation of its own retail store whenever conditions warrant.

The best results are often secured through retailing the entire production through the manufacturer's own stores. The Singer Sewing Machine Company, for instance, the most conspicuous example, has divided the United States into territories, which are, in turn, subdivided into one hundred or more divisions. The company maintains outside salesmen as well, who turn all the business they secure into the store serving the territory in which the sale is made.

The Regal Shoe Company has six selling districts, determined by volume of sales rather than extent of territory. It is divided into the Southern, the Northern, the Pacific, the Middle West, and the two Metropolitan divisions of New York.

This question of territory is much more important in the manufacturer's chain because of the previously discussed agency question and the nature of the product. On the one hand it is necessary to secure the loyal cooperation of the agencies and on the other the efficient operation of the retail stores.

2. *Purchasing*.—Purchasing, as such, does not exist for the retail branch of the manufacturer's chain. All goods are invoiced to the retail stores at cost of manufacture by the company. Thus, one great source of chain economy is at one stroke removed. The purchasing function is a mere choice of lines to be stocked by local managers. As hitherto explained, this slows up the entire process to transferring the purchasing desires of the public to the source of supply. Consequently, a manufacturing chain is far more likely to be caught with large inventories by sudden shifts in buying habits and style or perhaps periods of depression.

3. *Accounting Control*.—Accounting is just as necessary in the manufacturer's chain field as in the retail chain field. It is, however, more difficult to obtain the same accurate results if agencies are used for partial distribution. But all manufacturers with retail chain stores recognize the necessity of scientific statistical control both for sales analysis and for individual store efficiency.

4. *Sales Policies*.—When a manufacturer sells through agencies, his desire is to sell the product. The dealer is important only through the volume of sales of the company's product. When the manufacturer runs a retail store or chain of stores, the

individuality of the store takes on prime importance. What an agent does reflects on the agent more than on the company. What one of the company's own stores does reflects directly on the company itself. Thus, the sales policy must be modified to take into consideration the retail links.

The great sales problem is the question of price. Must the company's own stores sell at the same price as the agencies? Suppose there is an overstock of goods. Should agencies and stores combine in sales effort to clear out these stocks? Unquestionably it is very difficult for the manufacturer's chain to reduce prices. Various expedients are tried. Merchandise is shifted from stores where it will not sell to stores where it will. More general still is the practice of giving a premium to the salesman on the sales of slow-moving goods.

Price in a manufacturer's chain is a local question far more than in the retail chain. For example, competition in one city may be especially strong, due to local manufacturing and local retailing. The problem here is quite different from that of another city where competition may be weak and sales easy to make. A price cut is generally a last resort, after all other methods have failed. It may be essential, however, in an oversupply of seasonal goods.

A manufacturer does not sell a number of brands—he sells one brand and that his own. All sales effort, therefore, is concentrated on establishing the preeminence of this particular brand over others in the field. In a retail chain, if one manufacturer's brand fails to sell, it can immediately be discarded, but the manufacturer who runs his own retail store must make his brand successful.

5. *Advertising*.—The general advertising policy of the manufacturer's chain must be made up with reference to the following considerations:

- a. The interests of the retail stores.
- b. The interests of the agencies.

Many of the manufacturers' shoe chains do national advertising in the interests of both groups. When it comes to local advertising, there has been some reluctance on the part of the local managers to run advertising matter which would help the agencies as well as themselves. This view, an essentially narrow

one, has been generally discarded in favor of the policy that whatever helps the sales of the product will eventually help everybody concerned.

6. *Direct Advertising.*—The manufacturer's chain can frequently use the direct forms of advertising with good effect. It is especially desirable when the chain sells entirely through its own outlets, or sells to agencies only when the market ranges of its own stores and those of agents do not conflict.

The following letter is an excellent sample of what may be done with the sales letter as a direct advertising medium. Here the purpose is to convince the reader of the benefits of buying from the Browning, King and Co., chain, and, second, to point out special values.

Dear Sir:

It may be of interest to our many friends and customers to learn that our firm was organized in 1822 by John Hazard Browning, the grandfather and greatgrandfather of the gentlemen who are now conducting this business.

It seems to us we can claim, with pardonable pride, that to survive for one hundred years in active business is the best proof we can offer of the merit of our merchandise.

However, it is not the only proof.

We are the one concern in the country manufacturing our own clothing and distributing this through our own stores from coast to coast. From manufacturing our own clothing, we obtain certain tailoring and economical advantages, and it has always been the policy of the firm to pass these advantages along to the customers.

The first great advantage we have from manufacturing under our own supervision is that of being able to create and maintain a standard of tailoring that is not possible for a retailer who buys from different wholesalers.

Then, as to value.

We can afford to eliminate and do eliminate the wholesaler's profit. It costs from 25 to 30 per cent to wholesale goods. This saving we give to you. It is a well-worth-while saving on a suit of clothes, and it is a saving which couldn't be offered you by a retailer who doesn't manufacture his own clothing, unless it be in his final clearance sales at the end of the season.

"If this is so," you may ask, "how can other retail clothing houses exist?"

Simply because it is impossible for the average man to compare the actual value in clothing. There are so many different grades of tailoring that do not show. If clothing could be compared in value like sugar or flour, a very few of these retailers could exist.

Now we are going to give you a specific example of the opportunities we can offer our customers because of being the manufacturers.

In every large manufacturing business, there is always a season when it is hard to keep the factory running at maximum. Through this quiet season, we are making every year now a certain quantity of both men's and children's suits, and we offer these suits in our twenty-one stores at practically cost.

These suits for this Spring are our

Special Value Men's Suits
with Extra Trousers at \$40.

These suits are of the finest worsted, both finished and unfinished, in a wide selection of colorings, and cut in the most fashionable models of the day. We believe to the best of our information that no retailer, unless he manufactures the clothing, could afford to sell these suits for less than \$60 to \$65.

For Boys and Children we made up

Special Value Boys' and Children's Suits
with two pair of knickers at \$16.50.

These suits are made of imported English tweeds and cheviots in the newest Norfolk models. Unless purchased from a manufacturing retailer, these suits would probably cost you from \$25 to \$30.

For the protection of our customers, we have a special ticket sewed on the sleeve in both these Special Value Suits calling your attention to their special value.

If you want complete proof of the greater values offered by Browning, King, you can do no better than to ask to see these Suits and then compare them with what other houses are asking for similar quality.

In this letter, we have endeavored to present simply the facts about Browning, King, and feel confident that these Special Value Suits particularly will prove to you that we have not exaggerated.

We certainly would appreciate your inspection, for we believe that our display of merchandise this year surpasses all our previous endeavors as to style, quality, and value.

Sincerely yours,
BROWNING, KING & Co.

This letter was sent out in four-page form, the back being used, as illustrated in Fig. 114, to picture the company's stores. By



FIG. 114.—Back of four page sales letter used by Browning, King & Company. The illustrations of the company's stores help to build confidence in the chain.

showing in such a way the type of store through which the company sells, the prospective buyer is given a feeling of confidence in the chain and in the goods which it has for sale.

Conclusions.—The retailer who starts a chain of stores is beginning at the bottom, and, whatever manufacturing operations he may eventually take up, they are always in response to a direct demand from the retail outlets, and an advance indication that the products manufactured will be disposed of immediately at a profit.

The manufacturer who starts a chain of retail stores in the endeavor to make his distribution more direct, more uniform, or for any other reason is commencing at the top and working down. He has to create a market for his product which is already being manufactured, and he must do this against strong competition. He should choose an executive capable of handling the retail end of his business who will see to the choice of sites, the building up of a personnel and sales policies. And the manufacturer is always hampered more or less by the inelasticity of the product he manufactures to shifting demand, a factor which the retail chain capitalizes immediately.

Whether a manufacturer should start a chain of retail stores is an individual question, depending on capital available, and a careful study of all the problems brought forward in this chapter.

CHAPTER XXX

FOOD AND GROCERY CHAINS

Several factors have tended to make chain store expansion in the grocery field particularly thorough and rapid.

1. *Priority in the Field.*—The chain store idea had its inception in the grocery business. It had, therefore, the advantages due to being first in the field.

2. *Largest Potentialities.*—The selling of food products is the most important retail activity. There are, and always will be, more stores devoted to the selling of groceries than to any other commodity.

3. *Greatest Repeat Possibilities.*—The grocery store is essentially a neighborhood proposition. It draws a regular volume of business from a restricted radius. It is, therefore, ideally adapted to chain store activities.

4. *Price Appeal.*—The ability of the chain to offer groceries at a substantial reduction in price, particularly in a field where price is the greatest incentive to purchase, helped to compensate for trade lost because of elimination of service.

5. *Weakness of Competition.*—The independent grocers, as competitors, labored under great difficulties. They did not have the benefit of expert management, were largely unacquainted with the principles of retailing, and were unable to practice the economies of mass selling.

Types of Grocery and Food Chains.—There are several types of so-called grocery chains. There is the regular type of chain grocer handling all brands asked for by the majority of customers, and selling a private brand in addition; there is the self-service type handling nationally advertised goods only; there is the restricted-products type, carrying tea, coffee, butter, eggs, and a few dry staples. There are also a few quality grocery chains, giving delivery and allowing credits. Lastly, there is the development of the chain traveling store, the numbers of which have increased greatly during recent years.

1. *The Regular Grocery Chain.*—In most respects this type of grocery store is no different from its independent competitor. It carries approximately the same products, but not so many lines, there are no “shelf warmers,” and the tendency is always towards packaged goods where possible. In methods, of course, the chain grocery is infinitely superior to the independent; the same is generally true of location. This type of chain store normally does some manufacturing or distributing on its own account. The larger chains do a great deal of their manufacturing; the smaller chains concentrate on some particular line, such as breadstuffs.

2. *The Self-service Type.*—This type of chain has made a place for itself in many communities, although it has never succeeded in obtaining much of a foothold in New England. It has proved better fitted for the grocery field than for any other. As a rule, only nationally advertised goods are sold.

3. *The Restricted-products Type.*—Many of these stores started as retailers in teas and coffees and found it convenient to take on additional lines such as butter, eggs, and beans. In general, the stock of the chain grocery store is more restricted in number of items than the independent store, but the tendency seems to be to enlarge the lines of goods carried once it is proved conclusively that there is a public demand for the new products.

4. *Quality Chains.*—This type of chain started from a single store always and then acquired branches. In many cases, the management still dislikes the word “chain” as applied to this organization, because it is felt that a chain denotes cash and carry, which is precisely what it seeks to avoid. As is natural, these chains are comparatively small, first, because their class of trade is limited to those with money, and, second, because it is so much more difficult to standardize the individual service on which the trade of this type of chain is founded. Rarely both cash-and-carry and service stores are operated by the same management.

5. *The Food Market Chain.*—There has been a pronounced trend recently towards combining the sales of all food products under one roof. The rapid installation of meat markets in many units of the Great Atlantic & Pacific Tea Company is an indication that the idea has great possibilities. It is believed

that customers can best be secured by giving them an opportunity of making all their food purchases in one store.

6. *The Separate Meat Chain*.—Recent years have witnessed the successful evolution of chains retailing meat alone.

7. *The Store on Wheels*.—The old custom of bringing the goods to the customer in a store on wheels has been successful in certain quarters. The so-called "mototeria," which practically duplicates the stock in the retail store, can frequently be seen in suburban and rural areas.

Grocery Chain Trends.—Certain points may be noted in regard to the growth of the chain store movement in the retail grocery field.

1. *Growth from East to West*.—The initial growth took place in the urban centers of the East. Most of the stores are still east of the Mississippi, although there is a constant increase in the number of western stores.

2. *Extension to Rural Communities*.—The original policy of opening stores only in urban and suburban locations has, in some instances, given way to the intensive cultivation of the entire market territory. The Great Atlantic & Pacific Tea Company, for example, has been highly successful in opening stores in small rural communities. Such a policy, of course, entails a high degree of organization, extremely low operating costs, careful inspection and merchandise control, and, above all, the ability to supply these stores regularly from centrally located warehouses. By choosing local managers from the communities in which the stores are placed, some of the local antagonism is neutralized. It has been found, moreover, that the public is rapidly becoming enthusiastic as to the advantages to be derived by patronizing the chain store systems.

3. *Opportunity for Expansion*.—It has been widely stated that the chain movement in the retail grocery field has reached its height. The facts, however, do not bear out this assertion. It has been proved that the chain store can be successful in the small rural or semi-rural community, and there are thousands of these which, as yet, have no chain representation. There are even many cities of medium and large size which are not adequately covered.

4. *Change in Character of Competition.*—The original blind antagonism of independent store owners, displayed in savage and ineffectual attacks on the chain systems, has been superseded in many cases by the recognition that the best way to combat the chain is to adopt the chain principles of mass buying and selling. In recent years, therefore, many chains have been started by the owners of single stores.

5. *Manufacturing.*—At one time it was customary for the larger chains to turn to manufacturing as a means of securing an adequate and cheap supply of goods. It was found, however, that manufacturing was profitable usually when labor was cheap and raw materials low in price. As soon as these become higher, the manufacturer whose sole business it is to make a certain product can operate on a cheaper basis. Furthermore, the general tendency of manufacturers to grant regular jobbers' discounts to chains has made it unnecessary to seek other sources of supply.

The Grocery Chain Location.—Generally, the grocery store seeks the cheaper locations, but, as its chief hold is in the residence districts, where rents are not so high, it can usually obtain inexpensive locations near its logical center of business. Location is one of the essential features of chain grocery operation, as great reliance is placed upon the efficiency of the window display.

It was discovered by experience that one chain could locate near another and not cause any perceptible diminution in the trade of either store. In fact, some stores have claimed that their business was positively increased. Relying on this fact, some curious results have happened. In some communities, a single chain store has become well established. A rival chain wishes to establish a branch there, and, judging that the original chain has already done the missionary work of prospecting for a site, it establishes itself as closely as possible to the original chain store, often next door. Sometimes a third chain follows and fixes itself near the first two.

In one town the original chain store was located at some distance from the center and the other two chain stores settled in close proximity. The result was that the trade was not sufficient to go round and a fourth chain store, locating afterwards at the center, obtained the bulk of the trade. In other words,

there is naturally a saturation point for chain stores at a certain location.

Grocery chain stores do well in suburban localities, and in recent years have invaded quality locations with surprising success. Automobile trade has had much to do with this development, as the fact that the chain does not deliver makes little difference in this trade. The discovery that chain stores could prosper in rich localities marked a new phase of chain store development.

It should be noticed that the grocery chain store is often situated in small communities supporting no other type of chain enterprise. In this respect it has been the pioneer.

Grocery Chain Standardization.—All grocery chains are fairly well standardized, but in different degrees. The larger grocery chains keep a check on how much paper and string each store uses, so as to eliminate waste. Also, they charge each store with the wooden boxes that hold the canned goods, and allow credit of 5 or 10 cents a box when boxes are returned to the warehouse.

The larger the chain the more the tendency towards standardization, due, of course, to lack of contact of management and personnel. Many chain stores, for example, keep an almost exact-to-the-penny inventory of the stock each store contains. These records are so exact that, if there is a $\frac{1}{2}$ cent a pound drop in the price of navy beans, they weigh the beans in each store and credit that store for the reduction on the books. Similarly, if beans go up $\frac{1}{2}$ cent, each store is charged with that extra $\frac{1}{2}$ cent for every pound of beans in stock. Working in this way, it is possible to tell almost to a penny whether the management is getting every bit of profit which that store makes, or whether the store manager is making something for himself. Such a microscopic treatment of price changes is best suited for a large chain, but in the smaller chains it is simpler to check up on price changes no oftener than once a week. Some chains require weekly changes on staple goods and intermittent changes on dairy goods which may vary considerably during a period of seven days.

The larger chains can afford to demand a closer standardization of method, because they can afford to operate the machinery. Every refinement in accounting necessitates the weighing of

the result to see whether it justifies the expenditure in clerk hire. The small- or medium-sized chain must adapt its standard practice to its resources, just as the independent storekeeper cannot compete with the chain store on the ground of individual store efficiency of operation, but must resort to service to retain a hold on his customers.

Classification of Grocery Accounts.—There is great need of a standardized system of accounts for grocery chains. The following system was designed to meet the requirements of small and large chains, by W. F. Sharkey, formerly head of the auditing department of the Jones Brothers Tea Company, and before that in the auditing department of the Great Atlantic & Pacific Tea Company¹.

The ten main groups covered are as follows:

1. Current Assets.
2. Fixed Assets.
3. Deferred Charges.
4. Current Liabilities.
5. Fixed Liabilities.
6. Valuation Accounts.
7. Capital Stock.
8. Profit and Loss.
9. Income Charges and Credits.
10. Miscellaneous Accounts.

These ten groups are broken up as follows:

1. CURRENT ASSETS:

11. Cash.

111. Cash in Bank.
112. Petty Cash.
113. Interest Fund.

12. Accounts Receivable.

121. Accounts Receivable—Jobbing.
122. Accounts Receivable—Employees.

13. Notes Receivable.

14. Merchandise.

141. Dried Groceries.
142. Green Groceries.
143. Dressed Meats.
144. Sugar.
145. Butter.

¹ Reprinted from *Chain Store Age*, April, 1926.

- 146. Eggs.
- 147. Flour.
- 148. Merchandise in Storage.
- 149. Merchandise in Transit.

15. Supplies and Equipment.

- 151. Supplies for Dried and Green Groceries.
- 152. Supplies for Dressed Meats.
- 153. Supplies for Butter.
- 154. Supplies for Eggs.
- 155. Labels in Our Hands.
- 156. Labels in Hands of Printer.
- 157. Labels in Hands of Shippers.

16. Meter Deposits.

2. FIXED ASSETS:

21. Furniture and Fixtures.

- 211. Warehouse Furniture and Fixtures.
- 212. Branch Furniture and Fixtures.

22. Claims.

- 221. Claims against Shippers.
- 222. Claims against Carriers.

23. Delivery Equipment.

- 231. Warehouse Delivery Equipment.
- 232. Branch Delivery Equipment.
- 233. Superintendents' Auto Equipment.

24. Land.

25. Buildings.

26. Plant and Equipment.

27. Mortgages Owned.

28. Trademarks and Goodwill.

3. DEFERRED CHARGES:

31. Prepaid Insurance.

32. Prepaid Rent.

33. Prepaid Taxes.

34. Sundry Deferred Expense.

4. CURRENT LIABILITIES:

41. Vouchers Payable.

42. Notes Payable.

- 421. Notes to Creditors.

- 422. Notes to Officers.

43. Accrued Interest Payable.

44. Accrued Wages Payable.

45. Accrued Taxes Payable.

46. Accrued Commission Payable.

5. FIXED LIABILITIES:

51. Mortgages Payable.

52. Bonds Payable.

6. VALUATION ACCOUNTS:

61. Notes Receivable Discounted.

62. Reserve for Bad Debts.

63. Reserve for Fire Loss.

64. Reserve for Obsolete Material on Inventories.

65. Reserve for Property Revaluation.

66. Reserve for Depreciation of Plant.

67. Reserve for Depreciation of Fixtures.

68. Reserve for Depreciation of Trucks.

69. Reserve for Preferred Stock Retirement.

7. CAPITAL STOCK:

71. Preferred Stock.

72. Common Stock.

73. Surplus—Undivided Profits.

74. Surplus—Appropriated Reserve.

8. PROFIT AND LOSS:

81. Trading.

811. Cost of Goods Sold.

812. Sales.

82. Operating.

821. Warehouse and Shipping.

822. Building Maintenance.

823. Truck and Garage.

83. General Branch Expense.

831. Salaries and Commission.

8311. Managers' Salaries.

8312. Managers' Commissions.

8313. Clerks' Salaries.

832. Rent.

833. Taxes.

834. Heat, Light, and Power.

835. Depreciation.

8351. Depreciation of Fixtures.

8352. Depreciation of Delivery Equipment.

836. Supervision.

837. Advertising.

838. Wrapping Expense.

- 839. Miscellaneous Branch Expense.
 - 8391. Expense Paid at Branches.
 - 8392. Store Delivery.
 - 8393. Contests.
 - 8394. Closed Store Expense.
 - 8395. Robberies.
- 84. Administrative and General Warehouse Expense.
 - 841. Salaries.
 - 8411. Officers' Salaries.
 - 8412. Office Force Salaries.
 - 8413. Administrative Salaries.
 - 8414. Pensions.
 - 842. Insurance.
 - 8421. Insurance—Buildings.
 - 8422. Insurance—Trucking Equipment.
 - 8423. Insurance—Merchandise and Fixtures.
 - 8424. Insurance—Group Life.
 - 8425. Insurance—Workmen's Compensation.
 - 843. Rent.
 - 844. Taxes.
 - 8441. Taxes—Federal Income.
 - 8442. Taxes—Real Estate.
 - 8443. Taxes—Corporation Capital Stock.
 - 8444. Taxes—State Franchise.
 - 8445. Taxes—Automobile Registration.
 - 845. Professional Service Expense.
 - 8451. Legal Expense.
 - 8452. Auditing Expense.
 - 846. Office Expense.
 - 8461. Telephone and Telegraph.
 - 8462. Postage.
 - 8463. Depreciation Office Furniture and Fixtures.
 - 8464. Heat, Light and Power.
 - 8465. Miscellaneous Office Expense.
 - 847. Traveling Costs.
 - 8471. Traveling Expense Advances.
 - 8472. Traveling Expense.
 - 848. Donations.
 - 849. Depreciation.
 - 8491. Depreciation Plant and Equipment.
 - 8492. Depreciation Obsolete Equipment.
- 9. INCOME CHARGES AND CREDITS:
 - 91. Income Charges.
 - 911. Interest Expense.
 - 912. Sales Discounts—Jobbing.

92. Income Credits.

921. Interest Earned.

922. Sub-rent.

10. MISCELLANEOUS ACCOUNTS:**101. Merchandise Adjustments.****102. Inventories.****Explanations**

The following is an explanation of the character of each classification, the nature of each account, and, in general, the kind of transaction to be charged or credited to it.

1. CURRENT ASSETS ACCOUNT: Current Assets is a term denoting those accounts which will in the ordinary course of business be converted to cash.

11. This account is used for Balance Sheet purposes only to show all cash.

111. Cash in Bank. This shows the general cash receipts and disbursements. It is debited with the total cash received each period and credited with the total cash disbursed. The balance should agree with the Bank Statement after being reconciled.

112. Petty cash represents the office funds. Debit with all of the original amount placed in the fund and with any additions made later. It is credited only when the fund is reduced. While it exists there should always be actual cash or vouchers on hand whose sum equal the original charge.

12. Accounts Receivable. This is a control account controlling the two subsidiary accounts following.

121. Accounts Receivable—Jobbing. This account is debited with all charges to customers on all merchandise jobbed (wholesaled) and credited with remittances from them.

122. Accounts Receivable—Employees. This account is charged all merchandise sold to employees and all money advanced them. It is credited with employees remittances and deductions made from payroll.

13. Notes Receivable. This account is debited with the face value of notes accepted from customers or other debtors. It is credited with the cash received in payment of such notes, and with the notes that have been discounted which no longer bear a contingent liability. When a note is renewed the old one is credited and the new one debited. Notes issued by officers or employees should be carried in a separate account. The balance of the account after subtracting the total of the Notes Receivable Discounted Account is an asset.

14. Merchandise. This account controls the subsidiary accounts listed below:

141, 142, 143, 144, 145, 146, 147, 148, and 149. These are debited with the beginning inventories of each commodity classification and

with all purchases made during the period. It is credited with all merchandise transferred to branch stores, returned to vendors, adjustments and the closing inventory. The balance of the account should balance with the total amount charged against branch stores for shipments from the warehouse.

Merchandise delivered direct to branches is debited to the proper purchase account showing the suffix "X."

16. **Meter Deposits.** This account is charged with all monies laid out with public service companies, such as gas and electric, as a deposit on the meter installed. It represents an asset of the company.
2. **FIXED ASSETS:** Fixed Assets is a term denoting those accounts which represent the properties and other values of a permanent nature that are retained as a fixed investment of the business.
 21. **Furniture and Fixtures.** This is a Balance Sheet account being a total of the sum of the following subsidiary accounts:
 211. **Warehouse Furniture and Fixtures.** Debit with the cost of all furniture and fixtures purchased for use in the warehouse and main office. Credit with transfers, sales, and with the balance of the accrued depreciation.
 212. **Branch Furniture and Fixtures.** Debit with the cost of all furniture and fixtures purchased and shipped direct to branch stores and with transfers of like manner from the warehouse. Credit with transfers, sales, and with the balance of the accrued depreciation.

All items that bear a life of less than one year should not be charged to these accounts, but should be handled as expense.
 22. **Claims.** This is just a collective account and is not active. The total should be included with Accounts Receivable on the Balance Sheet.
 221. **Claims against Shippers.** This is debited with all amounts for shortages and other deductions not shown on shippers invoices or received too late to be deducted direct from the invoice. When this account is charged the proper Purchase Account is credited.
 222. **Claims against Carriers.** This account is debited with all amounts for shortages and other irregularities occurring on merchandise while in transit to the company, and which is not collectible direct from the vendor. When the charge is made the proper Purchase Account is credited.

If the claims made in the above accounts should not be allowed or should be cancelled by any other means than by remittances either from the shipper or the carrier, the foregoing accounts should be credited and the proper Purchase Accounts debited through a reversing journal entry.
23. **Delivery Equipment.** This is a Balance Sheet account which shows the sum of the following accounts.
 231. **Warehouse Delivery Equipment.**
 232. **Branch Delivery Equipment.**
 233. **Superintendents' Auto Equipment.** These accounts are debited with the cost of all such equipment purchased, and are credited with transfers, sales and the accrued depreciation.

24. Land. Debit with the cost of all land owned. Also debit with all improvements made. In doing this, care should be taken that payments for land maintenance are not included. These are expenses. The account always has a debit balance and is only credited with the cost when part or all is sold.

25. Buildings.

26. Plant and Equipment.

These two accounts are debited with the cost when purchased or received in other manners, and with any additions or extensions made later that increase their value. This does not include cost of maintenance. It is credited with the cost in case of sale, or otherwise disposed and with the accrued depreciation.

26. Mortgages Owned. Debit with the face value of all mortgages taken. Credit when mortgages are paid either in full or in part.

27. Goodwill and Trademarks. The amounts debited to these accounts must rest with the conditions surrounding the company.

3. DEFERRED CHARGES:

31. Prepaid Insurance.

32. Prepaid Rent.

33. Prepaid Taxes.

34. Sundry Deferred Expense.

These accounts are provisions for all prepaid expenses. They are charged with the prepaid amount and credited with adjustments that prorate the expenses into profit and loss in their proper periods. The debit balance represents the unexpired portions or the deferred amount.

4. CURRENT LIABILITIES: Current Liabilities is a term denoting those obligations of the company which must be paid in the following period of operation.

41. Vouchers Payable. This account is credited with the total of the Vouchers Payable column of the Voucher Register. It is debited through the Vouchers Payable column of the Check Register in total.

42. Notes Payable. This is a balance sheet account under which all indebtedness in the form of notes, etc., is grouped.

421. Notes to Creditors. This account is credited with the face value of all notes due to outside creditors. It is debited for the face value when the note is paid.

422. Notes to Officers. This account is handled similarly to 421, except that it is for notes given to officers of the company. It is shown separate for balance sheet purposes.

43. Accrued Interest Payable.

44. Accrued Wages Payable.

45. Accrued Taxes Payable.

46. Accrued Commissions Payable.

The above accounts are credited by adjusting journal entries at the closing of the period. They are debited with reversing entries after the opening of the new period.

5. FIXED LIABILITIES:

51. Mortgages Payable. This account is credited with the face value of all mortgages given. Debit when mortgages are paid in full or in part.
52. Bonds Payable. This account is credited with the amount of all bonds issued. Debit with the amounts expended for the retirements of the bonds and with donations.

6. VALUATION ACCOUNTS:

These accounts are credit counterparts of other asset accounts. The valuation accounts are classified under liabilities because they bear credit balances and are similar to liabilities from a bookkeeping standpoint. They are not actual liabilities, however, and should always be taken into consideration with their asset components.

7. CAPITAL STOCK: This account is for recording the original investment of the stockholders. It is divided into two subsidiaries that keep the interests of both classes of holders separate.

71. Preferred Stock.

72. Common Stock.

73. Surplus. This account accumulates the increases in the original investment and shows actual unappropriated surplus of the company. Credit with all such increases. Debit with appropriations.

74. Surplus—Appropriated Reserve. This account represents all surplus set aside for a definite purpose by the board of directors. Credit with all such appropriations. Debit with amounts expended or disposed for these purposes.

8. PROFIT AND LOSS: This account is for the grouping of all accounts dealing with the actual operations of the company.

81. Trading. This is a nominal account for the determination of gross profit.

811. Cost of Goods Sold. This account is debited with the opening inventories of the branch stores and with all shipments made direct or from the central warehouse. Credit with adjustments and closing inventory. Balance represents cost of goods sold which is closed into the Trading account.

812. Sales. Credit with the total amount of all sales made in branch stores. Debit with sales returns, sales adjustments. The balance is closed into the Trading account.

82. Operating. This is a control account over the following accounts. The total is closed as a debit to Profit and Loss.

821. Warehouse and Shipping.

822. Building Maintenance.

823. Truck and Garage.

These accounts are debited with all expenses and salaries paid which are incurred for their proper operation.

83. General Branch Expense. This is a control account over the following subsidiaries. The total is posted as a debit to profit and loss.

831. Salaries and Commissions. This is merely a group heading and is inactive.

8311. Managers' Salaries. All salaries paid managers are debited to this account.

8312. Managers' Salaries. All sale-commissions paid managers are debited to this account.

8313. Clerks' Salaries. All salaries paid clerks are debited to this account.

832. Rent. All rent paid for the occupancy of branch stores is debited to this account.

833. Taxes. All taxes paid for in use of branch stores is debited to this account.

834. Heat, Light and Power. All expenses incurred for these items whether paid for by the main office or by the store itself should be charged to this account. This applies only to heat, light and power used in branches.

835. Depreciation. This is a control account whose total represents the sum of the following subsidiaries and is closed as a debit to the profit and loss account.

8351. Depreciation of Fixtures.

8352. Depreciation of Delivery Equipment.

These accounts are debited with their proper portion of depreciation for the operating period.

836. Supervision. This account is debited with all salaries and expenses incurred by Superintendents and Assistant Superintendents in the Sales Department.

837. Advertising. This account is debited with all expense incurred in advertising the merchandise. Credit with advertising allowances granted by vendors for displaying their merchandise.

838. Wrapping Expense. This account is debited with all wrapping material furnished the stores and represents the total of the balances of the accounts in the 15 field, Supplies and Equipment.

839. Miscellaneous Branch Expense.

The total of this account represents the sum of the following subsidiaries and is charged to profit and loss.

8391. Expense Paid at Branches.

8392. Store Delivery.

8393. Contests.

8394. Closed Store Expense.

8395. Robberies.

84. Administrative and General Warehouse Expense. This is a controlling account representing the sum of the following sub-accounts and its total is posted as a charge to profit and loss.

841. Salaries. This is a collective classification and is inactive.

8411. Officers' Salaries. This account is debited with total of the Officers' Payroll.

8412. Office Force Salaries. This account is debited with the total of the office payroll.
8413. Administrative Salaries. This account is debited with the total of salaries paid department head and any other semi-executives and appears on a separate payroll.
8414. Pension. This account is debited with the total of the Pension List.
842. Insurance. This is a controlling account whose total represents the sum of the sub-accounts given below.
- 8421. Insurance—Buildings.
 - 8422. Insurance—Trucking Equipment.
 - 8423. Insurance—Merchandise and Fixtures.
 - 8424. Insurance—Group Life.
 - 8425. Insurance—Workmen's Compensation.
 - 8426. Insurance—Sundry.

These accounts are all debited with their proper-expired portions of insurance.

843. Rent. Debit with all rents paid for main office, warehouses and other administrative buildings etc.
844. Taxes. This is a controlling account that records the sum of its sub-accounts coming under the classification and is posted as a debit to profit and loss.
845. Professional Service Expense. This account is a group account and is inactive. The accounts coming under the classification are posted individually to profit and loss.
846. Office Expense. A controlling account governing the accounts coming under its heading which show the operation of the office.
847. Traveling Costs. A group account and inactive.
- 8471. Traveling Expense Advances. This account is charged with all monies advanced for traveling purposes. It is credited by the expense vouchers after the completion of the trip and with any balance that may be returned to cash.
 - 8472. Traveling Expense. This account is debited with all actual expense incurred in traveling and receives this figure from the Travel Expense Advances Account.
848. Donation. This account is charged with all monies and merchandise donated for benevolent purposes.
849. Depreciation. The accounts coming under this heading are debited with their proper portion of the depreciation for the period. The heading is a group title and inactive.

9. INCOME CHARGES AND CREDITS:

91. Income Charges. The accounts coming under this group are charged with all interest expense incurred on the part of notes and mortgages and with cash discounts allowed for merchandise sold through jobbing activities.

92. **Income Credits.** These accounts are credited with all interest earned on notes held and mortgages held by the company and any rents received through subleasing.

10. **MISCELLANEOUS ACCOUNTS:** These accounts are merely nominal and are used for the purpose of making adjustments, and for the holding of items in suspense etc.

All transactions affecting the company as a whole will be shown on the books with its proper code number. Those transactions affecting branch stores only will be shown with their proper code number and the suffix "X."

The First National Warehouse System.—One of the warehouse systems which has attracted a great deal of attention is that devised by the First National Stores, of Boston, Mass., representing a consolidation of three local grocery chains, and a chain of meat markets. The existing three warehouses were obviously inadequate to meet the needs of the consolidated organization and, therefore, a new one was planned. At the time of building the chain operated about 1,700 stores, about half of which were located within 10 miles of the State House in Boston, and a majority of these within 5 miles. In making a survey to determine the best of the available sites the following seven points were considered:

1. Railroad facilities for receiving and shipping.
2. Accessibility to stores, piers, and freight yards.
3. Accessibility to labor supply.
4. Cost of land.
5. Physical characteristics of the property which affect the cost of building.
6. Taxes (and also the fire hazard represented by surrounding buildings).
7. Future growth.

The object, in planning the warehouse, after the site was chosen, was to have the inflow of new goods closely approach the daily outgo. The utility of the warehouse, in other words, does not depend on its size and capacity for storage, but on the speed with which goods can be got in and out. Three of the company's officials were sent to inspect chain grocery warehouses throughout the country, and the useful ideas which they brought back were embodied in building the new warehouse. All preparations have been made so that facilities may be enlarged when the volume of the chain warrants.

ITEMS	CODE	SIZE	UNIT	UNIT HEIGHT FEET	NO HIGH	PILE HEIGHT FEET	SKID CAPACITY	PLANNED STOCK	NUMBER OF SKIDS			
									6 DAYS	3 DAYS	2 DAYS	1 DAY
Mazola Oil lge.	5070	32 oz.	12 cans cs.			8	90	118	2	1	1	1
Mazola Oil sm.	4070	16 oz.	24 cans cs.			9	90	178	2	1	1	1
Marshmallow F. M.	8493	6 oz.	24 pkgs. cs.			8	120	35	1	1	1	1
Marshmallow Mist	8494	12 oz.	6 cans	1 E	9		360	390	3	1	1	1
Mustard Sard. Undr.	6176	12 oz.	10 cans	2½ E	6		350	68	1	1	1	1
Best. Nor. Smok. Sard.	9172	4 oz.	25 cans		6		280	1118	4	2	2	1
Sec. Nor. Smok. Sard.	9173	4 oz.	25 cans		6		280	275	1	1	1	1
Kip. Herring Marsh.	7168	#1	12 cans		6		132	60	1	1	1	1
Kipper Snacks	9155	3½ oz.	10 cans	2 E	11		900	523	1	1	1	1
Pimentos	9281	7 oz.	4 cans		6		1125	105	1	1	1	1
Crab Meat lge.	8151	1 lb.	3 cans	2 E	4		640	233	1	1	1	1
Crab Meat sm.	7151	8 oz.	12 cans	2 E	5		264	705	3	2	1	1
Striped Tuna Fish	9187	8 oz.	24 cans		6		148	178	2	1	1	1
R. & R. Boned Chick	6143	6 oz.	3 cans cs.	1 E	7		1520	488	1	1	1	1
East India Pick	7655	#4	12 cans cs.	1 E	9		85	193	3	2	1	1
Dublin Pick	7654	#4	12 cans cs.	1 E	9		85	50	1	1	1	1
Presto Hand Soap	9772	16 oz.	12 cans		5		255	270	1	1	1	1

Fig. 115.—The First National Stores determined exactly how much space to provide for each item by gathering data like the foregoing showing the number of skids required for 1, 2, 3, or 6 days' supply respectively.

The assembly floor is built around a monorail system, by which a small electric train collects outgoing orders. The bakery has a capacity of a million loaves a week, baked by electricity, cooled, wrapped, and assembled automatically. Preparation has been made for manufacturing such articles as preserves and condiments; bottling soft drinks; packing tea, and coffee, and caring for private-label products.¹

Figure 115 shows the method in which it was determined how much space would be needed for each item in the stock of approximately 600 items. The whole assembly part of the warehouse is laid out with stock in positions corresponding to the layout of each of the retail stores.

The Grocery Chain and the Manufacturer.—Strangely enough, it was a long time before the manufacturer could be brought to see that his best interests lay in cooperating with the chain store instead of working against it. He labored under the impression that the chain idea was only an unimportant part of the market, and that, if he openly incurred the hostility of the wholesale grocers, he would lose much valuable business. In fact, although the manufacturer, as a rule, now sells direct to the chains, he is, in theory, opposed to them out of deference to his jobber connections. But in practice the chain organization affords him a quantity outlet, regular purchases, prompt payment, and a minimum of selling expense. The Hills Brothers Company, manufacturers of Dromedary products, employs a special sales force to sell to chain organizations.

On the Western coast the relation between chain systems and manufacturers was particularly curious. The independent grocers, who constituted 80 per cent of the total, and who were well organized, served an ultimatum upon manufacturers that their products would be barred if they sold the chains at jobbers' prices. The manufacturers, desiring to lose neither independent nor chain store patronage, had a difficult time deciding which course to pursue.

The whole question hinged on whether the buying department of a chain system was entitled to recognition as a wholesaler. It performs the same functions as the independent wholesale

¹ For further information see *Chain Store Age*, October, 1927.

organization, the only difference being that its customers are its own stores, and it does not have to maintain a selling organization. It is estimated that the cost of operation of the wholesale grocer ranges from $7\frac{3}{4}$ to 12 per cent or even higher, while the independent retailer's costs vary from 20 to 26 per cent. According to Alfred H. Beckmann, secretary of the National Chain Store Grocers' Association, the cost of operation in the average chain for both wholesale and retail functions is from 13 to 18 per cent.

One of the outstanding problems in retail distribution today is whether manufacturers shall be allowed to fix the price at which their products shall be sold to consumers. Hitherto, in this country, it has been held that manufacturers can make no contract, express or implied, with dealers relating to price fixing.

Most manufacturers recognize the economy of the chain store method of distribution both in buying and selling. The so-called independent retail grocer must necessarily buy from the wholesaler or jobber, because of his small buying volume. The wholesaler or jobber is compelled to maintain a large sales force to take care of the retail trade, in addition to which the manufacturer employs specialty salesmen who call on the retailer also, and turn over the orders taken to some jobber for execution—all of which adds to the cost, for which the consumer must pay.

A manufacturer desiring to place his product on the market through a chain of stores—whether it operates 50 or 5,000 stores—need send only one representative to the headquarters of the chain grocery store, where the sale is consummated, if the article has sufficient merit and the terms are satisfactory.

The average retailer, or, rather, the majority of small retailers—and they are in the majority—have, as a rule, little capital when they enter business, and the wholesale grocer extends credit in addition to furnishing the opening stock. As soon as the retailer is established, salesmen of other wholesale grocers call upon him—a duplication of overhead expense—and the wholesaler, who is really entitled to all that retailer's business, finds his sales diminishing and is obligated to wait the pleasure of the retailer for payments on goods purchased, ranging from 30 to 60 days, or even longer, further emphasizing the credit evil. Not less than 75 per cent of retail grocers require credit

accommodation of the wholesale grocer, while the chain grocer both buys and sells for cash.

Legal Attempts against Chains.—From time to time, there have been sporadic concerted attempts to secure legal restrictions on chain store activities. For example, during a convention of the National Association of Retail Grocers, at Los Angeles, it was suggested that the number of chain stores in any community should be limited by law. This was echoed by the Missouri retailers, who resolved that the legislative committee recommend at the next session of the state legislature the passage of a bill intended to prohibit any merchant from operating a "chain" of stores in the same town, by providing a tax of \$50 per year on the third store, doubling the tax for each additional store, and making a tenth store pay an annual license of \$6,400.

This bill was, accordingly, introduced in the legislature of the state. The House Private Corporations Committee reported it adversely, eight to two. The Senate committee passed upon it favorably. The hearings brought out some interesting statistics—for example, the average overhead of the chain was from 13 to 16 per cent, the corresponding overhead of the old-line grocer was from 20 to 24 to 26 per cent.

Another case which excited a great deal of interest was the attempt made by certain retail forces to have the Federal Trade Commission label as unfair the practice of the National Biscuit Company in giving quantity discounts, and in treating the chain as a single customer. As a matter of fact, it was found that the discount policy had worked out as an incentive to the independent retailer, as was disclosed by the following comparison of customers in the various price classes between 1917 and 1921.

NUMBER OF CUSTOMERS

Discount	1917	1921
Total.....	226,795	248,487
15 per cent.....	1,677	3,210
10 per cent.....	21,949	33,192
5 per cent.....	59,575	85,591
None.....	143,594	126,134

The Great Atlantic & Pacific Tea Company.—To George H. Hartford, who died in 1917, is due the credit for initiating the first successful retail grocery chain. The idea, as conceived by him, was carried out and is still being carried out. Stores in the chain of the Great Atlantic & Pacific Tea Company are added only as they seem warranted. Yet, owing to the great size of the chain, the new links come with surprising frequency. A glance at the table below will show how rapidly the number of stores has increased since 1910.

1910	372	1919	4,246
1911	404	1920	4,508
1912	447	1921	4,744
1913	628	1922	7,000
1914	1,001	1923	9,200
1915	1,726	1924	10,303
1916	2,866	1925	14,000
1917	3,232	1926	14,500
1918	3,799	1927	16,000

A program of expansion which increased the number of stores, from 1,000 in 1914 to over 10,000 in 1924, and 16,000 in 1928, is a notable achievement. The volume of commodities sold over the counters of this chain is awe inspiring. As far back as 1919, it sold 50,000,000 pounds of coffee, 35,000,000 pounds of butter, 20,000,000 dozen eggs, 150,000,000 pounds of flour, 200,000,000 pounds of sugar, 300,000,000 pounds of potatoes, 68,400,000 cans of milk, and 200,000,000 cakes of soap. In 1924, 250,000,000 loaves of bread, 400,000,000 pounds of sugar, 325,000,000 cakes of soap, 504,000,000 pounds of potatoes, 12,000,000 pounds of tea, 75,000,000 pounds of coffee, 80,000,000 pounds of butter, 380,000,000 dozen eggs, 23,000,000 pounds of flour, and 95,000,000 cans of milk.

An idea of the ramifications of its activities may be secured from the fact that it has 37 warehouses, 13 bakeries, 10 coffee-roasting plants, and 35 manufacturing and canning plants. Its yearly gross sales are over half a billion dollars.

To date, the Great Atlantic & Pacific Tea Company is the only great national grocery chain. It has, to a large extent,

succeeded in solving sectional difficulties. After experimenting with various policies, it abandoned credits and deliveries in 1912, and later adopted the policy of selling products asked for by the customers, and, in addition, of manufacturing as much as possible of its own products to compete either in price or in size of package content.

The chain has always believed that it will be successful in measure as it models its plans on the wishes of its customers. For example, an investigation was made in the New York territory to find out the public attitude towards the organization. Prizes totaling \$5,000 were offered for the best ideas as to how the organization could improve its service. Three questions were asked:

1. Why do you not trade in an A & P store, and what influences you to trade elsewhere?—or why do you trade in an A & P store, and what appeals to you most?
2. What should the A & P do to be of greater service to the public?
3. What additional articles, groceries, or other merchandise would you like to purchase in A & P stores?

The Kroger Grocery & Baking Company.—The Kroger chain, with 3,715 stores, is the second largest in the grocery field. Unlike the Great Atlantic & Pacific Tea Company, it covers a fairly compact area, comprising the states of Ohio, Indiana, Kentucky, Michigan, Missouri, Illinois, West Virginia, and Pennsylvania. In volume of sales this company is surpassed only by the Great Atlantic & Pacific and the Woolworth chains.

In 1882, B. H. Kroger, with a cash capital of \$722 opened a store in Cincinnati, which he called the Great Western Tea Company. In 1885 he had three stores, each located on what he considered a profitable site. At an early stage in the development of his chain, he adopted two policies:

1. To buy direct in so far as possible.
2. To sell his products at as low a price as was consistent with the cost to him, regardless of competitors' prices.

Needless to say, he incurred immediately the enmity of the independent grocers, the jobbers, and the wholesalers, and of many manufacturers who disliked seeing their prices cut. In 1891, he had 7, and in 1902, 36 stores.

As soon as he had saved up some money he spent it in advertising in newspapers. The appeal, of course, was based on low prices, and this policy, also, was bitterly resented by his opponents. But it allowed many of his stores to turn their stock twenty times a year, and he continued. As he came into contact with middlemen who refused to sell as he required, he turned them down and started manufacturing on his own account. He made cake, candy, and canned goods, and put up his own brand of coffee. Then he bought 15 grocery stores at Dayton, Ohio, and changed the name to the Kroger Grocery & Baking Company. In 1904, he bought a packing house and made the retailing of meat one of his major activities, although meat is not sold in all stores. In 1908, 60 stores were added at one stroke. Mr. Kroger has founded a bank in Cincinnati, built an interurban railroad, and owns a great deal of real estate. And his chain of stores keeps on growing. Not content with eliminating wholesalers, he has cut out commission brokers, and is buying his produce direct from the farmers on a commission or cash basis.

By 1928, the company had expanded to such a size that it was thought desirable to make a public flotation of common stock; 275,000 shares at \$70 a share.

The Piggly Wiggly Company.—The Piggly Wiggly organization has had a somewhat chequered career since the first Piggly Wiggly store was opened in Memphis, in 1916. The Piggly Wiggly Corporation owns the patents, operates the fixture factory, and receives a royalty of one-half of 1 per cent on gross sales from all Piggly Wiggly retail stores, whether independent and licensed under the Piggly Wiggly patent, or belonging to Piggly Wiggly Stores, Inc.

The basic soundness of the Piggly Wiggly idea is shown by the growth of stores operating under the system:

	NUMBER OF STORES
1916.....	1
1917.....	25
1918.....	52
1920.....	286
1922.....	685
1924.....	1,360
1925.....	1,860
1926.....	2,214
1927.....	2,650

The expressed policy of the company is to dispose of the stores owned entirely to independent companies, and to confine its activities to granting franchises for operation under its patents. There are several hundred independent operators, united by

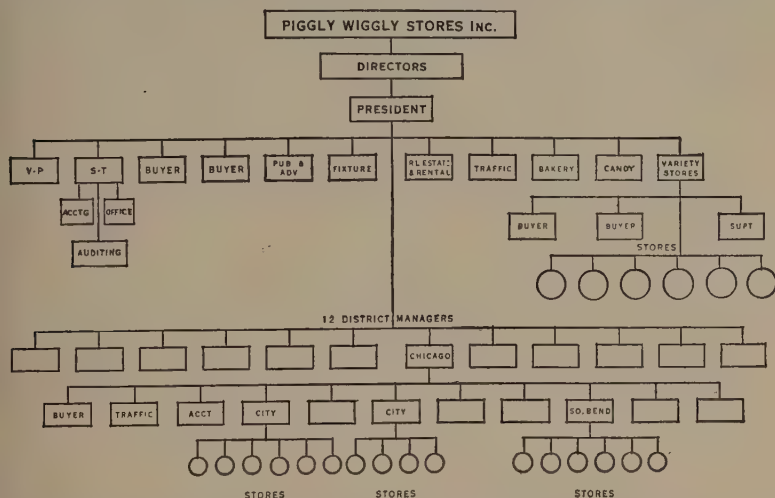


FIG. 116.—Chart showing organization of Piggly Wiggly Stores, Inc. The Chicago district has been considerably reduced by the sale of 97 stores in the city to the National Tea Co. (*Management.*)

PERCENTAGE OF EXPENSES TO GROSS SALES FOR THE YEAR 1923:

Region	South West	Mid South	South East	S.E.	Central	S.W.	S.E.
Rent	1.70	1.35	2.40	1.50	2.30	1.73	1.65
Salaries	4.24	5.00	5.80	3.70	4.65	4.71	3.43
Light and Heat	.37	.30	.47	.30	.02	.22	.23
Ice	.17	.05	.01	.10	.01	.16	.16
Advertising	.86	.75	.28	.60	.08	.73	.90
Drayage		.35		.50	1.50	.45	
Miscellaneous {							
Overhead.... }	3.14	2.20	3.94	4.20	1.94	2.40	6.09
Total Expense....	10.50	10.00	12.90	10.90	10.50	10.40	12.46
Gross Margin	17.75	18.00	17.00	14.40	16.00	14.29	15.98
Net Profit	7.25	8.00	4.10	3.50	5.50	3.89	3.52

FIG. 117.

contract with the parent company, and also members of what is known as the "Piggly Wiggly Operators Association."

Figure 116 shows the organization plan of Piggly Wiggly Stores, Inc. Figure 117 indicates the percentage of expenses to gross sales in various sections of the country.

The idea throughout has been to standardize everything. A complete set of rules is formulated for the store manager, which is supposed to cover all probable contingencies.

Store managers make daily and weekly reports of sales, purchases, payroll and incidental labor. An inventory of stock is made weekly and is checked by the district manager. District managers report monthly on the following activities, according to *Management* (June, 1923):

Payroll Record of Stores, showing sales by week and month, and percentage of payroll to sales.

Report on General Operations, covering all expenses and income for the district, with summaries of profits, expenses, and percentage.

Report of Stores Merchandise Operations, summarizing the month's expenses, purchases, opening and closing inventories for each store.

Report of Accounts Payable.

Report of Accounts Receivable.

Trial Balance.

Balance Sheet, showing assets, liabilities, and net profit or loss for the month.

Even licensees make weekly reports of gross sales by days. Payments of royalties are made monthly.

The standardization of all details is cared for with great exactness. Standard methods are used by the real estate department in reporting and investigating possible locations. There are standard leases. Fixtures are made by the company in standard units, enough of which can be packed in a single box car to equip one store. Any carpenter can set up the equipment by following the instructions. Only standard advertised brands are used. Stock is arranged in the same manner in every store, and shelving is made to hold just so many items of each kind. Heavy items are located near the exit, so that the customer will not have to carry them far. Devices are arranged so that employees handle merchandise only once, and porters and others employed in the store have definite tasks to perform. Though they may be in the aisles through which the customers pass, they are forbidden to touch any merchandise or aid the customer in the selection of goods.

Every attempt is made to secure the goodwill of the customer. For example, if, by any chance, the customer causes any damage, the rule reads as follows:

Should the customer inadvertently or through any other cause, knock from a shelf a bottle or package of anything that breaks—and is thereby ruined for sale—and should the customer or any visitor do any damage about the store which is not done with malicious or wilful intent, it will be considered the duty of the employee who sees damage result through action of such customer or person to tell that person that such a one is not in any wise to blame; even should such a person offer to make payment, the money must be refused and customer made to feel that such accidents will happen sometimes.

Even the number of keys to the store is mapped out in this little booklet, which sets forth the conduct of the stores and of the store personnel.

The Five-and-ten-cent Grocery Chain.—An interesting chain store development is the small chain started in Boston and Cambridge, Mass., which sells food products at 5 and 10 cents and nothing over. The originator of the plan, Arthur H. Smith, once a buyer for the variety chains, thought a five-and-ten-cent grocery store would cause the customer to spend more money than was intended as did the five-and-ten-cent variety stores. A ten-cent counter was tried out in a centrally located store, and was a decided success, doing a business of \$750 a week.

The first store was opened in March, 1926, in Boston, in the middle of an apartment district where kitchenettes and not kitchens were the rule, and where it was expected the small-package units of the chain would be acceptable. The sign bears the name of the manager, "C. E. Barton's 5-c. and 10-c. Food Stores." The second store was opened in January, 1927, in Central Square, Cambridge—a business district, but catering to a large apartment and family trade.

Both of these stores proved profitable. The Boston store in its best week served 6,711 customers with total purchases of \$2,576.06. The Cambridge store does a business of about \$1,200 on the average. Cost of operation is about 10 per cent, including salaries and bonuses. Mark-up ranges between $14\frac{3}{4}$ and $15\frac{1}{4}$ per cent.

Goods in bulk are repackaged and labeled with the chain's private brand. Seven hundred and fifty different items are carried, all quality goods. The best-known brands of package and canned goods are to be found in ten-cent packages. Refri-

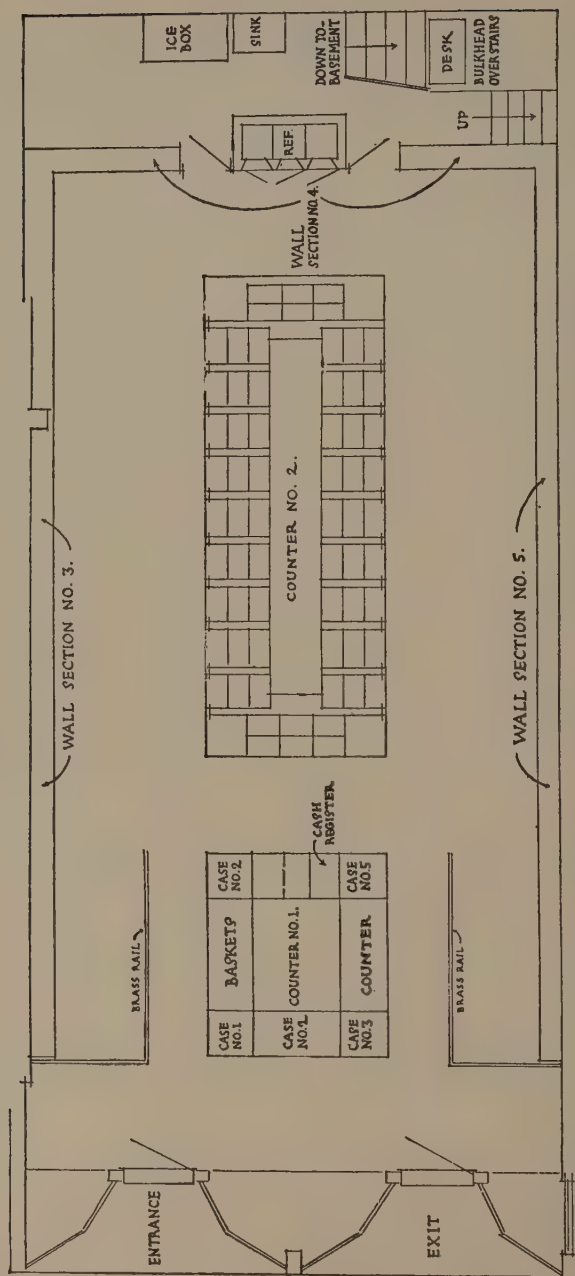


FIG. 118.—Layout of C. E. Barton's 5¢ and 10¢ Food Stores, Boston, Mass.

generators are kept in the stores in which dairy products are kept. Frankfurters, sausages, and bacon are also carried, wrapped in cellophane paper.

Stores are operated on the self-service plan, with a uniform layout as shown in Fig. 118. All shelves are numbered uniformly so that location of goods in the various stores will be the same.

Managers are paid flat salaries of \$30 a week plus a bonus based on rental of the location and sales. If store rental is \$200 a month, and business of \$1,000 a week is expected, the manager is paid 2 per cent on all sales over \$1,000; the cashier 1 per cent, and the stock man the same.

It is planned to expand the chain, making experiments with the one-man, neighborhood-type store. Outside the Boston district, the intention is to sell rights to the use of the name and organization plan for a certain amount per store.

The Meat Chain.—The development of the meat chain has been very recent. The retailing of meats is carried on both in separate establishments and in connection with the selling of groceries. In this latter class are included such large concerns as the Great Atlantic & Pacific Tea Company, with over a thousand markets; the H. C. Bohack Company, Inc., of Brooklyn, N. Y. (since 1912); The Southern Grocery Stores, Inc., Atlanta, Ga. (since 1915); and the Skaggs Safeway Stores, Oakland, Calif.

The reasons for the late development of the meat chain are the same as those which have prevented the extension of the chain idea into many fields until recently. In the first place, meat is not a standardized product. No two carcasses can be cut up in exactly the same way. Some chains have tried the plan of having all cutting done by skilled butchers in a central shop, and then having these distributed to the various stores for sale in trays. The disadvantages in this are hard to overcome: the meat cannot be cut too far ahead or it becomes discolored; frequent deliveries to stores are required; stores are restricted to a definite delivery district within reach of the central shop; and there is much loss from shrinkage. On the other hand, the centralized cutting shop eliminates the need for an expert butcher at the several shops; it speeds up the selling operation at the store, and expensive duplication of machinery is done away with.

Difficulty has also been encountered in securing the proper type of employees. The success of the chain often depends upon the economies of the individual managers in disposing of poorer cuts of meat, the use of scraps, and in the giving of correct weight. Furthermore, the refrigeration machinery necessary to instal is expensive, and meats must be disposed of while they are fresh. Another serious difficulty is the constantly changing prices, complicating stock control and accounting.

Although the majority of chain meat markets are operated by grocery chains, it is felt by some authorities that the products are so different that the selling of the two should not be combined. Furthermore, a combination store requires a much greater investment, personnel problems are different, and, in a small

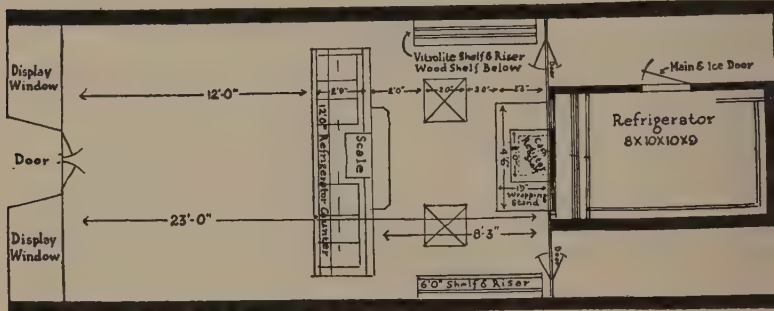


FIG. 119.

store, a meat market would not prove profitable. On the other hand, if a store can sell meats and groceries, it secures the entire trade of the customer; it already has the location needed, and the overhead is not increased in the same proportion as the volume of sales.

It is estimated that 800 customers are required to support a chain meat market, and the location should be near other food stores. An interesting development in chain meat retailing is the Brownie Meat Shops, Inc. of Chicago. Each store is run by one man, has a standard layout (illustrated in Fig. 119) and the latest labor-saving equipment. The store manager is held responsible for results, although closely supervised. He must show 22 per cent minimum gross profit on sales, and send a daily report of expenditures.

An interesting comparison of expenses between costs in large stores and these one-man stores is afforded by E. G. Shinner and Company, Inc., which operates both the Shinner Markets, and the Brownie Meat Shops in four middle-western states. These figures cover a four-week period:

	Shinner		Brownie	
		Per-centage of Sales		Per-centage of Sales
Sales.....	\$10,289.86		\$2,400.00	
Cost of goods sold.....	7,589.17	73.7	1,768.80	73.7
Gross profit.....	2,700.69	26.2	631.20	26.2
Store expense ¹	1,411.03	13.5	300.00	12.5
Store profit.....	1,289.66	12.5	331.20	13.7
Store profit—less overhead ²	1,026.93	9.9	259.20	10.8
Number of store employees....	5		1	
Sales per employee.....	\$2,057.95		\$2,400.00	
Turnover of stock.....	8.6		7	
Investment in store ³	\$7,747.00		\$2,700.00	

¹ Store expenses include: telephone, sawdust, soap, stationery and supplies, taxes, travel, part of the wages and expenses of district manager, water, repairs, freight and drayage, sundries, watchman service, wages and rent.

² Overhead includes 2 per cent of sales for expenses of head office, and 1 per cent for depreciation on furniture and fixtures monthly.

³ In most cases the company rents its store building. A real-estate department handles all real estate and such similar affairs of the company.

The one-man store returns more profit on sales and on investment, and permits the company to establish stores in districts which would not support the more pretentious type of establishment.¹

Handling Vegetables and Fruits.—Most chains will admit that it is desirable to handle vegetables and fruits, but this admission is usually qualified by limiting the variety carried, or statements to the effect that waste and shrinkage is so great that any advantages from added volume and trade are overcome. Turnover and

¹ Material for this section has been taken from a series of articles by Ernest F. Witte, research assistant, University of Chicago, appearing in *Chain Store Age*, December, 1927, and January, 1928.

mark-up may be satisfactory but many fruit and vegetable departments operate at little or no profit. The Tom Good Stores, Inc., of Cleveland, Ohio, operating under the Piggly Wiggly plan, obtain 20 per cent of their volume from the fruit and vegetable sections, which occupy about 1,000 feet of floor space out of a total of 2,200 to 3,000 square feet.

It is considered that a good display of vegetables and fruit is a great asset as a business getter. It must be adequate, however, and price is secondary to quality. The organization has found, furthermore, that store managers can be found who are capable of making the fruit and vegetable section pay. Each store manager is allowed to do his own fruit and vegetable selecting, and is held responsible for waste, spoilage, and shrinkage. Wholesalers come to the store and managers make their selections daily. A turnover of approximately fifty times a year in this department has been secured, with a capital turnover during the same period of sixty-six times.

The Safeway Stores, Inc., of California, has studied this problem of caring for vegetables and fruits with great care. The following extracts are taken from one of the special bulletins to managers:

After you close your store at night, you should take all root vegetables, such as beets, turnips, carrots, radishes, oyster plant, etc., and place them in water, covering everything except the tops.

A wet sack should be laid over such items as lettuce, parsley, etc.

"All root vegetables, such as beets, carrots, turnips, green onions, oyster plant, etc. should be carefully washed with a stiff brush before placing on the stand. If the tops are unsightly, they should be trimmed.

Sunkissed oranges should be kept wrapped as much as possible, except the ones on top. This is also true of grapefruit. We notice in a great many stands that they are removing the tissue wrapper, especially from the Imperial Valley grapefruit. These deteriorate and dry up much quicker after the wrapper is taken off. Then again, the fact that the wrapper is stamped with the Imperial Valley brand shows the consumer that they are Imperial Valley grapefruit.

In fixing up your stand in the morning, it is very important that each item be priced, as the consumer hesitates to ask the price. It has been proven that a stand with each item priced will sell nearly twice as much as the same stand without prices.

Be sure and wipe the stand off with a damp cloth every morning.

Be sure and take full advantage of all the Specials. For instance, if we are able to offer you a special on fresh peas at a considerable less price, than that at which your competitor is selling, you should use a table wherever possible, make as large a display as possible, and place a sign on them.

It is really surprising the amount of fresh fruits and vegetables that can be sold when properly displayed.

In case you have a large quantity of any product, such as celery, make a mammoth display of this on your stand, put a price on it, and what might appear to be an overstock will soon prove to be an inadequate stock.

Some stands make the error of holding their fresh goods in the back room and selling the foods received the day before. It usually works out that you are continually selling old merchandise, whereas if you would take some of the fresh goods and put on the stand and reduce the price of the others, you will do a great deal more volume.

Remember that your first loss in selling fresh fruits and vegetables is the best loss. Do not wait until an item is spoiled before reducing the price.

The Mototeria.—In several cases, chains of retail grocery stores have found that a number of stores on wheels are profitable adjuncts to their regular outlets. The W. K. Hutchinson Company, Arlington, Mass., operates a number of these so-called mototerias, stocked with the same lines as are carried in regular stores, including groceries, vegetables, bakery goods, and a limited line of meats. Orders are taken daily by the mototeria manager for delivery the following day. Each truck covers from 4 to 6 miles a day through the better-class, two-family suburban sections. It is estimated that a profitable route must cover 500 families within a radius of 2 square miles. The mototeria stops at every third house, and a gong is rung which notifies customers that the truck has arrived. Most of the selling is done in the morning, while in the afternoon the driver-manager tries to get new business. Weekly sales run between \$500 and \$800.

This company has found it essential that the mototerias should be as clean as possible, and everything done to enhance the attractiveness of the interior. Bakery goods, for example, are behind glass compartments. A small refrigerator with a

glass top is carried, in which meats and dairy products may be kept. Bulk products are already packaged at the warehouse.¹

The Wright and Parker Company, of Detroit, has also made some interesting experiments with mototerias as supplements to regular outlets. According to the account in the *Retail Ledger*, the store measures $7\frac{1}{2}$ by 22 feet, but is able to accommodate 10 to 12 customers at a time. It is electrically lighted and heated during the winter by a hot-water connection with the motor. It has shelves, bins, refrigerator, cash register, and plate-glass display windows.

The store is arranged for self-service. An overhead conveyor, with roller-bearing attachments on which customers hang baskets, passes in front of the shelves and leads to the driver-clerk-cashier, who stands at the front and itemizes the purchases on a cash register.

Prices are the same as at the regular stores of the chain, but profits are larger because of lower operating cost and quicker turnover. The Mototeria is aimed to reach customers who could not or would not come to the chain store and carry home their own groceries, or who would buy small articles at the store, but would purchase such articles as potatoes and flour from stores delivering them free of charge.

According to President John H. Parker, the average business in the chain store is \$675 a week, while the mototeria will average \$1,000 a week. Furthermore, turnover is increased, rent eliminated, and personnel reduced to one man. The volume of business is increased because peak hours are eliminated. The mototeria carries the same stock as the regular store, but in smaller quantities, because it may be replenished daily. A number of side lines, such as druggists' sundries, have been found profitable.

The usual method of operation is to drive the mototeria slowly along the route, stopping when hailed. It is usual to make two or three stops to the block.

¹ See *Chain Store Age*, July, 1926.

CHAPTER XXXI

DRUG CHAINS

The chain store movement in the drug field came comparatively late. The difficulties in the way of standardizing drug-store operation were far greater than in the grocery or the tobacco field. They were even greater than the obstacles encountered by the pioneer five-and-ten-cent store chains. As late as 1900, there were only 25 stores which might properly be classified as members of chains, including the Hegeman and Riker Companies, with six stores in New York and the Owl Drug Company with three stores in California.

Not until after 1920 did the chain drug store begin its real development. In that year, according to an analysis made by the *Druggists' Circular*, there were 315 chains of 3 or more drug stores in the United States, operating 1,563 stores. Since that time, by a process of growth, consolidation, and assimilation, the field has easily doubled. Particularly during 1926 and 1927 was growth rapid. In these two years, the Louis K. Liggett Company added over 150 stores. The Walgreen Company, of Chicago, which started 1927 with 106 stores ended that year with nearly 200 stores, and, furthermore, increased its area of distribution widely. Much attention was aroused by its occupation of the quarters so long occupied by the United Cigar Stores Company in the Flatiron Building at Twenty-third Street and Broadway in New York City.

The chain systems have confined themselves mainly to the urban sections, with a few attempts to cultivate the smaller towns and outlying sections. Like the grocery store, the true drug store has always been a neighborhood proposition, but the variety of stock necessary increases the difficulty in maintaining adequate turnover without the large volume of custom securable only in down-town locations. The United Drug Company has more or less covered the small-town field by its system of Rexall agencies.

Most of the present drug store chains with 10 stores, or over, have been in operation a comparatively few years. The employment of capital and modern methods is speeding up growth in this field.

The Louis K. Liggett Company.—The Louis K. Liggett Company, operating 500 stores in this country and in Canada, is by far the largest factor in the retail drug field. No discussion or description of this company is possible without a preliminary account of its connection with the United Drug Company. The latter organization was formed in 1902, at a meeting in Boston of 35 retail druggists. Mr. Liggett, the guiding spirit of the organization, who had been a traveling salesman for Chester Kent and Company, manufacturers of Vinol and other proprietary medicines, had been impressed with three evils in the drug trade:

1. There was a tendency of manufacturers to force retailers to overstock.

2. There was substitution by the dealers of their own preparations in place of those of proprietary companies.

3. There was a failure to maintain the manufacturer's indicated resale price.

The original 35 members drew up resolutions to the following effect:

1. The company was to manufacture only for stockholders.

2. There was to be only one stockholder in each town.

3. The company was to make and market at the outset at least 100 remedies, all of which were to be sold under a single blanket trade-mark.

4. Six of the 100 remedies were to be advertised extensively in season.

5. The first lines to be advertised were to be a dyspepsia cure and a catarrh cure.

6. All of the products, except the advertised remedies, were to be sold to the stockholders at such a price as would not net the corporation more than 25 per cent on its gross selling price.

7. Each preferred stockholder had to purchase as much stock in the company as the cost of the first year's advertising in his city.

8. Control of the corporation was to be in the hands of the druggists themselves.

9. As long as a stockholder owned common stock, he was to be a perpetual agent.

The company, in addition to manufacturing drugs, has been interested in the manufacture of perfumery, of candy, and of

stationery. Liggett also organized the Drug Merchants of America, a company formed to purchase other goods than were manufactured by the company for use in agencies.

The Louis K. Liggett Company was organized in Boston in 1907, five years after the foundation of the United Drug Company, to relieve the United Drug Company of risk of loss from a controversy as to the Boston agency. This dispute had originally started between the United Drug Company and the Riker-Jaynes Company. In 1910 the Liggett Company had 26 stores, while the Riker-Hegeman-Jaynes people controlled 58 stores. In 1900, the Hegeman Company had four stores in New York and the Wm. B. Riker Company had two stores, also in New York.

By a process of combination, the Riker-Hegeman-Jaynes people, in 1916, had 107 stores in operation. In that year the Liggett Company, owning 45 stores at the time, bought them out. Since then the Liggett chain has expanded steadily, and to its policies and practices are due in great measure the present conception of the chain drug store as a retail outlet capable of merchandising a wide variety of stock. By the purchase of the 650 stores of Boots the Chemists, in England, which now number 800, the stores operated by the Liggett interests were largely increased. During the postwar depression of 1920 and 1921, the Liggett interests were seriously hurt, but recovered with remarkable activity and resumed growth at an accelerated rate.

Differentiating Factors.—It is possible to point out a few of the particular characteristics of chain drug stores, such as the following:

1. *Management.*—Operating a link in a drug chain requires a manager capable of using his initiative on occasion. It is not always possible to have the close coordination which is typical of the grocery chain, because the market is more extended, the stock is larger, the store is larger, and other factors making management more difficult are present.

2. *Market.*—The chain drug store in the majority of cases draws customers from a broad area. The independent drug store, as a rule, is a neighborhood enterprise, and, therefore, has a certain percentage of stable patronage.

3. *Product.*—The chain drug store has had difficulty in avoiding the character of a department store. There has been a

constant tendency towards diversification of merchandise carried, ranging from fresh eggs to phonographs. There has also been a pronounced trend towards the soda fountain and away from the prescription counter. In many cases, this is regarded as mistaken policy, as, without the prescription counter, the drug store loses its individuality. Some drug chains have introduced lunch counters, which serve sandwiches and salads, in addition to the various beverages. The success of this feature depends largely upon the location of the store.

At present, drug-store merchandise is not standardized. The buyers for each chain decide what their stores can sell, and purchase accordingly. Customers have grown into the habit of going to the drug store to obtain merchandise of almost every character. Chain stores usually establish by experiment what lines can be carried with profit, in addition to the regular merchandise normally associated with a drug store. Writing paper is universally stocked. Hair nets and similar merchandise are sold. Toilet articles are normally a part of the stock.

The variety of stock may be determined by watching competitors, or by tabulating the unfilled wants of customers.

4. *Location*.—The transient character of the majority of chain drug customers, and the convenience character of the majority of stock carried make it necessary to pay especial attention to location. Even the independent druggist recognizes this fact, as the term "corner drug store" indicates. Up to this time, chain drug stores have sought out busy downtown corners, where the largest amount of traffic passes. There is a definite limit, however, to this phase of development, and the time should shortly come when suburban districts will be more largely exploited by chains.

5. *Merchandising Policies*.—The chain drug store is ordinarily far more progressive than its independent competitors. Like the chain grocery store, it often relies on loss leaders to increase its sales of longer profit items. It is often a consistent price cutter, and, as such, is a thorn in the side of manufacturers with price-maintenance policies. By manufacturing its own brands (such as Rexall), or by purchasing them at wholesale and affixing its own brands, it often finds a means of making its individuality felt in the community where it operates. Window display

forms an important part of the merchandising program. Purchases are made, as a rule, at jobbers' discounts.

6. *Advertising*.—The chain store ordinarily makes a point of advertising, while few independent druggists feel they can afford the expense. The chain, owing to its metropolitan location, can take full pages in the daily papers, and be sure that the results from such advertising will accrue to its several stores. It does happen occasionally that an independent store, desirous of obtaining a reputation as a price cutter, will run cut-price advertisements, but these attempts are rare and not always successful.

The majority of chain drug advertising has been devoted to offering special items, but there is a pronounced tendency towards institutional publicity. The company desires to build up a conception in the mind of the public which will be of permanent value in determining purchases. For example, the Scholtz-Mutual Drug Company, of Colorado, used a page advertisement which, in addition to prices, emphasized the freshness of its merchandise, and the reason why such freshness was especially desirable for drug store stocks. The advertisement read in part:

Mutual Stores volume in sales has reached such proportions as to make the storage of merchandise entirely unnecessary. (A page advertisement.)

Merchandise flows directly from manufacturers to our store shelves; there are no accumulations of reserve stock to grow stale awaiting sale; no warehousing charges to add to the goods.

Freshness is measured by days and hours, as 89.6 per cent of our goods are sold every nine days. Many goods come fresh from our own manufacturing laboratories daily, where over 200 products are made.

7. *Service to Customers*.—Practically all drug chains make customer satisfaction a paramount factor in their policies. The sales manual of the Owl Drug Company has the following to say upon the matter of service:

Each member of our organization is valuable only in proportion to his ability to Serve our Customers.

Every store has just one important thing to sell in addition to its merchandise.

That one thing is *Service*.

The store that sells poor Service is a poor store.

The store that sells good Service is a good store.

The object of the Company is to sell its customers the very best service in the world.

It rests with every employee of the store—the manager, the floormen, the salesmen, the stock clerks, the telephone girls and the delivery boys—whether the customer is disappointed or pleased.

The customer pays your salary.

Any member of our organization who lacks the intelligence to interpret the feeling of goodwill that the Company holds toward its customers should not expect to stay here very long.

The Employee who helps to perpetuate this plan is never out of a job.

The Liggett organization has given much thought to the matter of customer satisfaction. The Service Manual of the company contains the following sections:

The first principle of the Liggett Idea is that EVERY TRANSACTION in a Liggett Store must be COMPLETELY SATISFACTORY TO THE CUSTOMER under all circumstances. On this point there can be no compromise.

The policy of this Company is that every Customer entering any of our stores shall be treated with the utmost courtesy and consideration, and that no transaction is satisfactory to us that is not entirely satisfactory to the Customer.

Cost what it may, the Customer must be treated with the utmost courtesy and consideration, and our Representatives must go to the farthest extreme in the endeavor to adjust to the Customer's complete satisfaction every difficulty that may arise.

As it is the policy and desire of the Company that the utmost courtesy and consideration shall be shown to every Customer under all circumstances, the handling of complaints is a matter of the first importance, for often by the way one single complaint is handled we are judged rather than by continuous service of the highest order.

Under no circumstances must any Salesperson assume the responsibility of refusing to exchange any article of merchandise returned by a Customer, or to refund the purchase price if requested, or to adjust any complaint that is brought by a Customer.

If the circumstances are such that the Salesperson does not wish to assume the responsibility of making the exchange or refund, or of adjusting the complaint, that Salesperson must tell the Customer, just as pleasantly and courteously as possible, that he has no authority in the matter, but that he will immediately call the Manager, who will do everything that lies in his power to adjust the matter to the Customer's satisfaction.

It should be the rarest occasion for the Store Manager to find himself unable to adjust a matter to the Customer's satisfaction. In such a case the Customer must under no circumstances be met with a refusal. He should be informed, as courteously as possible, that the matter will be referred by the Store Manager to the General Office, where every endeavor will be made, in accordance with the Company's policies, to adjust the complaint to the Customer's satisfaction.

Wherever an exchange or a refund is made, or a complaint is adjusted in any way, the exchange or refund should be made, or the complaint adjusted, cheerfully, willingly and with every appearance of good will. To adjust a complaint grudgingly and in such a way as to excite the Customer's antagonism is worse than not adjusting it at all. In such a case, when an exchange or refund is made we lose not only the amount involved but the Customer also.

If a Customer believes that he has not received the courtesy and consideration that are his due, and that he has just ground for complaint, and desires to complain to the General Office, every facility should be given him for doing so and in such a manner as not to further aggravate him.

Therefore a Salesman when requested by a Customer to give his name, must do so promptly and courteously and, at the same time, furnish the Customer making the request with the address of the General Office to which complaints may be sent. Failure to comply with this rule may be regarded as an admission of culpability. The information must be given without argument and without any tone of apparent defiance and without comment of any kind.

Accounting for Drug Chains.—The non-selling departments of chain stores are often willing to cooperate with corresponding departments of other chains, in the hope, if not the certainty, that thereby expenses may be reduced by improved methods. The movement for a uniform method of accounting was originally sponsored by the National Retail Dry Goods Association. In the drug chain field J. W. Cassin, controller, the Dow Drug Company, Cincinnati, Ohio, has succeeded in getting 12 drug chains to report costs in a uniform manner so that comparisons are possible. The following forms are used:¹

1. MERCHANDISE STATEMENTS:

2. Net Sales.
3. Opening Inventory.
4. Purchases (including Inward Freight, Express and Cartage).

¹ See *Chain Store Age*, p. 78, June, 1927.

5. Total Lines 3 and 4.
6. Closing Inventory.
7. Cost of Merchandise Sold (Line 5 minus Line 6.).
8. Trading Profit (Line 2 minus Line 7).
9. DIRECT STORE EXPENSES:
 10. Salaries and Wages.
 11. Commissions and Bonuses.
 12. Rent.
 13. Light, Heat and Water.
 14. Taxes and Licenses.
 15. Insurance.
 16. Repairs.
 17. Other Store Expense.
 18. Total Store Expense (Lines 10 to 17).
 19. Line 8 minus (Line 18).
20. OTHER STORE INCOME:
 21. Telephone Commissions.
 22. Net Rental from Leased Departments.
 23. Miscellaneous Income.
 24. Total Other Store Income (Lines 21 to 23).
 25. (Line 19 plus Line 24).
26. WAREHOUSE EXPENSES.
 27. Salaries and Wages (Warehouse Employees only).
 28. Commissary Salaries and Wages.
 29. Commissary Other Expense.
 30. Warehouse Rent.
 31. Other Warehouse Expense.
 32. Total Warehouse Expense (Lines 27 to 31).
 33. (Line 25 minus Line 32).
34. ADMINISTRATIVE, OFFICE AND GENERAL
 35. Advertising—Newspaper and Car Cards.
 36. Advertising—All Other.
 37. Advertising—Salaries and Expenses.
 38. Window Trim—Salaries.
 39. Window Trim—Supplies.
 40. Office Salaries.
 41. Buyers' and Department Heads' Salaries.
 42. Other Expense (include Executives' Salaries).
 43. Total Administrative Office and General (Lines 35 to 42).
 44. (Line 33 minus Line 43).
45. OTHER INCOME
 46. Cash Discounts Taken.
 47. Rentals Earned (Net).

48. Miscellaneous Income.
49. Total Other Income (Lines 46 to 48).
50. (Line 44 plus Line 49).
51. Depreciation on Furniture, Fixtures and Building Improvements.
52. Interest on Borrowed Capital.
53. Losses Sustained.
54. Total (Lines 51, 52 & 53).
55. Total Net Gain or Loss (Line 50 minus Line 54).

MERCHANDISE STATEMENT BY DEPARTMENTS

	Total	Drugs and Sund.	Toilet Goods	Candy	Cigars	Soda
1. Net Sales—Retail						
2. Net Sales—Wholesale						
3. Net Sales—Total	100%	100%	100%	100%	100%	100%
4. Opening Inventory.....						
5. Purchases (including Frt. etc.)						
6. Total Lines 4 and 5.....						
7. Closing Inventory.....						
8. Cost of Mdse. Sold.....						
9. Trading Profit.....						
10. Show here the percentage of each dept. Net Sales to Total Net Sales.....	100%					
11. Rate of Turnover in each and closing Inventory and Cost of Mdse. sold as shown on Line 8 above.						
12. Show below what proportion of Closing Inventory is in Warehouse and what pro- portion in Stores.....						
13. Warehouse						
14. Stores						
15. Total Lines 13 and 14.....	100%	100%	100%	100%	100%	100%
NAME OF MEMBER.....						
NUMBER OF STORES.....						

FIG. 120.

Figure 120 shows the merchandise statement by departments.

Whenever any one chain finds that its expense ratio to sales in any one department is out of line with the rest, investigation is made to see what the reason is.

Inventory Control.—The inventory system of the drug chain, with its great number of items to be cared for, always merits much attention. The Media Drug Company, a chain of medium size in the Philadelphia district, maintains 11 departments—soda, cigars, proprietaries, toilet articles, drugs, sick room,

inform the store manager of the percentage of sales by departments, the percentage of purchases by departments, and the sales increase or decrease over the previous month. Expenses

EYES OF THE BUSINESS CHART									
		Sales Percent	60TH ST.		Purchase Percent	Sales Percent	52ND ST.		Purchase Percent
			Sales	Purchases			Sales	Purchases	
1.	Sept.								
SODA	Oct.								
	Nov.	15.97	3 099 64	3 099 64	15.97				
2.	Sept.								
CIGARS	Oct.								
	Nov.	6.56	1 272 42	1 317 62	6.79				
3.	Sept.								
PROP.	Oct.								
	Nov.	24.11	4 679 62	4 826 02	24.87				
4.	Sept.								
TOILET	Oct.								
ARTICLES	Nov.	13.47	2 613 26	3 444 52	17.75				
5.	Sept.								
DRUGS	Oct.								
	Nov.	5.08	987 20	895 94	4.62				
6.	Sept.								
SICK ROOM	Oct.								
SUPPLIES	Nov.	4.44	861 52	997 10	5.14				
7.	Sept.								
RX	Oct.								
	Nov.	8.75	1 697 40	1 697 40	8.75				
8.	Sept.								
CANDY	Oct.								
	Nov.	7.	1 353 26	1 589 50	8.19				
9.	Sept.								
FANCY	Oct.								
GOODS	Nov.	2.45	476 00	2 612 86	13.46				
10.	Sept.								
SUNDRIES	Oct.								
	Nov.	8.28	1 606 40	4 553 80	23.46				
11.	Sept.								
P.M. DEPT.	Oct.								
	Nov.	3.80	737 14	698 78	3.60				
UNCLASSI-	Sept.								
FIED	Oct.								
SALES	Nov.	.09	17 32						
TOTALS	Sept.								
	Oct.								
	Nov.	100.	19 401 18	25 733 18	132.60				

FIG. 122.

are itemized on the same sheet and increase or decrease over the previous month shown. At the bottom of sheet are shown total stock increase or decrease for the month; sales increase or decrease

over same month last year; expense increase or decrease, and daily sales increase necessary to earn bonus. Finally, the gross per cent for the soda department and for the store total is provided for.

When a store shows a low gross for the month, this is shown in the sales analysis sheets which show that clerks are filling orders rather than doing any real selling. If a consistent increase in stock is shown, an inventory is at once taken by adding machines of that store, an operation taking six people about 5 hours. Inventories are always taken after the store is closed.

Figure 122 shows the so-called "eyes of the business" chart which hangs on a roller in the office of the general manager. This chart gives percentage of sales and purchases in all departments of all stores for the entire year and also the dollars and cents records. Each store manager is shown his position on this chart once a month.

Headquarters Window Control.—Owing to the wide variety of products sold in drug stores, and the importance of the window display in building up sales, methods of controlling windows are of great interest. The experience of the Owl Drug Company, San Francisco, California, in this respect should be valuable.¹ By its report system it is able to know the exact quantity of a displayed item on hand when the window goes in; the quantity when it comes out; whether the expected quantity was sold; and whether total sales justified the display. Two forms are used; the first, made up a week in advance, gives store number, window section number, merchandise in and merchandise out, giving the store manager plenty of time to prepare for it.

The second form is illustrated in Fig. 123. This gives window number, date of installation, and merchandise displayed. It also shows stock on hand at installation of window, stock in hand when it is taken out, and any additional purchases made while the display was in. The assistant manager of the store signs the report, and states whether, in his opinion, the window was justified.

Windows are worked out in the display department in a model show window. Uniform displays are not practicable, due to wide differences in the character of locations. A new razor would

¹ See *Chain Store Age*, p. 88, January, 1928.

be featured in a store patronized mainly by men; toy windows have been successful in neighborhood district stores.

ONE ITEM WINDOW SALES RECORD

IMPORTANT NOTICE

This Record is the Responsibility of the Assistant Manager and is to be made out in Duplicate. Send the Original to the District Manager's Office immediately after the window is taken out. The Duplicate is to be filed in the index for further reference.

1 Window Number	List below stock on hand as reported in Column 4. Add any additional purchases made during the time the window was in. Total, and subtract stock on hand when window comes out as reported in Column 6. Multiply by selling price to get total sales and enter amount in Column 7.	State Below Exact Wording of the Main Feature Card	
2 Date Installed			
3 Merchandise Displayed			
4 Stock on Hand (Entire Store) When Window Was Installed		Describe Below Any Additional Selling or Display Features or Merchandising Idea Used in this Window, Reporting any Store Contests on this Merchandise that May Have Been Effective at the Time	
5 Date Taken Out			
6 Stock on Hand (Entire Store) When Window Was Taken Out			
7 Total Sales Made in Dollars and Cents		In Your Opinion Was the Window Justified	
	Use Above Space to Work In	Store	Signed by Assistant Manager

FIG. 123.

An interesting experiment as to the value of window space was conducted by an Eastern retail druggist, who hung draperies in

his windows and removed all merchandise from them for 21 days to see what would happen. Results were as follows:

	PER CENT
Candy sales dropped.....	32
Soda business.....	14
Prescription business.....	2
Specialties.....	41
Rubber goods.....	22
Toilet goods.....	18
Stationery sales.....	10

During this period gross sales dropped near \$3,000.

Miscellaneous Information.—Chains often have individual practices which turn out profitably for them and are later adopted by other chains. The opportunities for chain drug stores in the new sub-business districts which are so rapidly forming around every large city should not be overlooked. The women living in such districts, because of traffic congestion and dislike of crowds, often do not go into the city for long periods of time. It is believed, however, that downtown stores give a certain prestige which helps out the business of the chain in outlying stores.

The soda fountain is normally the chain drug store's largest side line. The Owl Drug Company has done a great deal towards improving the quality of service rendered at its fountains, insisting on good appearance of fountain men, courtesy, and knowledge of goods. A regular sales approach is taught. All men must say when addressing a customer, "Your order, please." Counters must be kept clean; and dirty glasses removed at once. Attention to such details as these has helped to build up soda fountain volume to large figures.

Drug chains have generally paid a great deal of attention to salesmanship, especially in the value of knowledge of products and intelligent service. This is aimed at converting the casual shopper into a permanent customer.

CHAPTER XXXII

VARIETY AND NOTION CHAINS

Chains in this group range from the F. W. Woolworth Company with its five-and-ten-cent limit, to the large number of variety chains with five-cent to one-dollar nominal limits, although sometimes with merchandise, such as millinery, selling at as high as \$5. These chains differ from the drug and grocery chains not so much in principles of operation as in physical characteristics. There is the same necessity for careful accounting and for routine practice, but there are certain factors which complicate the situation, among which are the following:

1. The five-cent to one-dollar chain has a labor problem. Each store unit has in its employ a certain number of clerks, usually belonging to a relatively unskilled category, working for lower wages than those paid by department stores.

2. The size of the unit store in this type of chain is larger, requires departmentalization, and a manager with greater executive ability than is needed for the smaller grocery or drug units.

3. Stores are usually located at some distance from each other, and the problem of supervision is complicated.

4. It is impossible to standardize merchandise in any given district or even in two adjacent towns. In a field such as this, where the store exerts practically no selling pressure, entire reliance must be placed on the sales appeal of the product itself. Hence, product and market must be closely fitted, to each other.

The Field.—Because the notion-and-variety chain sells convenience goods, that is, articles used and needed in everyday life, it has been able to operate in communities with as little as 8,000 inhabitants. Contrary to other types of chains, the five-and-ten-cent store originated in a small town in Pennsylvania, and it was some time before it became established in large cities. But the distance which inevitably separated one store unit from

another caused a more decentralized form of organization, as has already been mentioned.

The size, the territory covered, and the publicity connected with a few of the largest chains in the field have almost made it appear as though this class of chains was limited to a few strikingly successful examples, and that the field was closed to the "little fellow." As a matter of fact, however, there are many small chains, operating a few stores each. The five-and-ten-cent store field seems to be not only the large city but also the small town, of which there are so many in Pennsylvania and the Middle West. Most of these smaller chains never advertise, and thus are not known beyond the precincts of the territory which they serve. Stores, however, are usually well located, painted in the proverbial red, with the window display conforming to general practice. The following table shows the position of leaders in the field in 1927:

F. W. Woolworth Company.....	1,586
S. S. Kresge Company.....	427
McCrory Stores Corporation.....	232
S. H. Kress and Company.....	183
J. J. Newberry and Company.....	150
W. T. Grant and Company.....	154
G. C. Murphy Company.....	117
Metropolitan Chain Stores, Inc.....	91

There has been exceedingly rapid growth in this field since the World War, not only among the leaders, but also among the newer chains, such as Green Brothers, Inc., of Boston; Neisner Brothers, of Rochester, N. Y.; F. and W. Grand Company, and the McClellan Company.

The F. W. Woolworth Company.—F. W. Woolworth made himself one of the best known men in America out of nickels and dimes. He lived to see the completion of the Woolworth Building, the highest edifice in the world, and the opening of the chain's thousandth store on Fifth Avenue, New York. The story of his rise to success has often been told, but a book dealing with chain stores would be incomplete without it.

Mr. Woolworth was born in Rodman, Jefferson County, New York, in 1852. He was the son of a farmer and was brought up

on a farm. But his ambitions lay along business lines. He took a course in a commercial college at Watertown, N. Y., and then went to work with the dry goods firm of Augsbury and Moore at Watertown. The first 3 months he received no salary. Then he was paid \$3.50 a week. After $2\frac{1}{2}$ years he was receiving \$6 a week. W. H. Moore, when he was earning \$10 a week in 1877, gave him an opportunity to rearrange the stock in the store. He did this, making up a five-cent table with a price card inviting customers to take their choice. Mr. Moore was induced to back a five-cent store in Utica, N. Y., but sales were not large enough to carry the store. It was closed. Woolworth immediately started another store in Lancaster, Pa., which sold out over 30 per cent of the stock on the first day. Sales for the first year were \$6,750. This was the first five-and-ten-cent store in successful operation.

Mr. Woolworth was wise enough to see the vast possibilities ahead of him, but he had no organization and no financial backing. He first took his brother, C. S. Woolworth, into partnership with him in a store in Harrisburg, Pa. This store was unsuccessful. It was closed and another opened in Scranton, Pa., which quickly established itself. In July, 1886, a small office was opened in New York.

The early growth of the present Woolworth chain was due to the training of men in the organization, who later established chains of their own, culminating in the final merger of 1912. S. H. Knox, Mr. Woolworth's cousin, joined Mr. Woolworth, and was associated with him for 5 years until 1889, when he started for himself.

Carson H. Peck was next taken from the Utica store and was brought to New York to help manage the stores and buy merchandise. F. M. Kirby started in with C. S. Woolworth in Scranton, Pa., where his entire office furniture was an old dry-goods box. Earle P. Charlton started with Mr. Knox and chose the New England field for exploitation, beginning business for himself in 1896. After the division of the stores, Mr Charlton extended his activities to California and the Pacific coast. Thus, from the Woolworth organization has developed five successful chains. The national aspect of the Woolworth chain has already been discussed in connection with the merger of 1912.

Hubert T. Parson, now president of the F. W. Woolworth Company, started with Mr. Woolworth in 1892 as an accountant. He became secretary of F. W. Woolworth Company, and, at the time of the merger, naturally became secretary of the enlarged company.

Its Growth and Development.—The following table is one of the most interesting in the history of chain store development, setting forth, as it does, the impressive growth of the second largest chain in the United States. Each year the number of stores has grown, and with comparatively few exceptions the average sales and average profits per store have grown also. The average sales of \$95,000 per store of 1912 has become \$171,000 in 1926. It is also important to note that the capitalization per store has been reduced by two thirds.

	Number of stores	Average sales per store	Capitaliza- tion per store	Average profits per store ¹
1926.....	1,480	\$171,300	\$ 36,480	\$19,000
1925.....	1,423	168,000	45,680	17,300
1924.....	1,356	159,000	48,000	15,243
1923.....	1,260	153,530	51,587	16,000
1922.....	1,182	141,556	63,452	15,503
1921.....	1,137	129,864	65,963	12,131
1920.....	1,111	126,839	69,307	8,798
1919.....	1,081	110,542	57,817	9,585
1918.....	1,039	103,156	60,154	6,822
1917.....	1,000	98,102	62,500	9,252
1916.....	920	94,662	68,478	9,471
1915.....	805	94,466	78,882	9,376
1914.....	737	94,463	86,838	8,724
1913.....	684	96,824	95,040	9,446
1912.....	631	95,877	103,011	8,581

¹ After tax reserves.

The second table shows the company's sales between 1912 and 1926, the net available for common, and the earnings per share.

	Sales	Net for common	*Per share
1926.....	\$ 253,645,124	\$ 28,204,928	\$ 10.85
1925.....	239,032,946	24,601,764	9.64
1924.....	215,501,187	20,669,397	7.95
1923.....	193,447,010	20,698,180	31.84
1922.....	167,319,265	17,624,399	27.11
1921.....	147,654,647	†13,022,960	20.04
1920.....	140,918,981	§8,971,751	13.87
1919.....	119,496,107	9,486,556	18.97
1918.....	107,179,411	5,281,595	10.56
1917.....	98,102,857	7,127,640	14.25
1916.....	87,089,270	7,785,945	15.57
1915.....	75,995,774	6,594,460	13.19
1914.....	69,619,669	5,432,396	10.87
1913.....	66,228,072	5,411,118	10.82
1912.....	60,557,767	4,364,779	8.73
Total.....	\$2,041,788,087	\$184,612,159	\$223.96
Annual average.....	136,119,206	12,307,477	

* Based on \$65,000,000 of \$25 par stock in 1926, 1925 and 1924 and that amount of \$100 par in 1923, 1922, 1921 and 1920. Other years on \$50,000,000 stock.

† After deducting \$1,743,170 inventory depreciation.

§ After deducting \$4,478,604 inventory depreciation.

The F. W. Woolworth Company has a considerable number of stores in England, some in Cuba, and has recently started some in Germany. The expansion of the Woolworth chain has been noteworthy for its growth out of earnings rather than new borrowings.

The operating principles of the concern are summed up as follows:¹

1. Our purpose is to make it easy for the public to buy.
2. We display those goods most wanted by the customer.
3. The customer is always right.
4. Sales determine the counter space given to an article.
5. We never force sales.
6. We have only one or two non-selling employees to a store.
7. If a store is not paying, we drop it.

¹ See excellent article by H. T. Parson, in *System*, July, 1925, entitled "The Ten Reasons Why Our Stores Sell over \$715,000 a Day."

8. We grade up standard selling practice in all our stores.
9. We use improvement suggestions of salespersons and customers.
10. Practically our whole organization is built from the inside.

The S. S. Kresge Company.—S. S. Kresge started in the five-and-ten-cent store business in partnership with J. G. McCrory, in Memphis, Tenn. A second store was opened in Detroit, Mich. In 1899, by an exchange of interests, Kresge became the sole owner of the Detroit store. By 1912 the number of stores had grown to 60, doing a gross business of \$10,000,000 a year.

Shortly after the outbreak of the war it was decided to abandon the 10-cent limit. At first a 25-cent limit was made, but this proved to be so successful that it was decided to start a separate chain of stores with a dollar limit, except in millinery, where hats were sold in season for as high as \$4.98. The result was that in 1917 the gross sales of the chain were over \$30,000,000, with a net profit of \$1,720,000. In 1922, including the sale of merchandise from 5 cents to \$1, the gross sales were over \$65,000,000. In the fall of 1924, the Kresge chain counted 243 stores against 164 in 1917. At the beginning of 1928 this number had increased to 427. The reason for this growth, according to the vice-president of the company, was that the chain was catering to a larger proportion of customers' needs, and that people were ready to buy goods in the higher price ranges.

The chain is noted for the progressiveness of its policies. In locating the five-and-ten-cent stores, the value of the location is determined by the number of women passing the store on foot during the whole day. But corner sites are not often taken, and never if more expensive than a site in the middle of the block. For the 25-cent to one-dollar store, it is not usual to pay as high a rent as for the five-and-ten-cent variety, because purchases are made mainly because of a previously formed intention, and location is not of such great importance.

The policy of the chain is to buy only according to needs, and to buy quantities just large enough to secure the maximum advantage in price. Untried articles are never purchased without testing them first among the best stores to see how they sell.

The Kresge chain has been distinguished by its attention to personnel. Mr. Kresge says that the skill of the manager can

make a difference of at least 25 per cent in the business of a store. Hence, the greatest care is taken in securing managerial talent.

The S. S. Kresge Company, according to an article by President Kresge, in *System*, aims to treat anyone entering one of its stores as an honored guest. With this in mind the following rules have been formulated in regard to the relations of customers and clerks:

1. In approaching a customer a sales clerk is required to ask in a manner as pleasant as the words: "May I wait on you, please?" We have found that it does not do at all to leave the approach to the individual whim. If we do that a girl may go up and with the best intentions in the world say: "Do you want anything?" or perhaps pointedly give the impression that the prospect is an intruder and had better buy or get out. We have tried a number of expressions; some were too friendly, others sounded importunate, and others went above the customer's head. We have found that the simple, friendly: "May I wait on you, please?" fills every requirement.

2. To treat every customer as though she had \$25 in her pocket and was going to spend it in the store. Salespeople are rarely judges of character; but usually they think that they are—which causes much of what trouble we have. The purchaser of 5 cents' worth is entitled to exactly the same treatment as the purchaser of \$25 worth, but it is only by insisting that, regardless of clothing, regardless of everything, the customer is to be regarded as a \$25 one that we are able to get uniform treatment.

3. That change must be counted into the hand, starting with the amount of the purchase and counting up to the bill or coin given. This is a friendly way of counting; it gives the idea of personal interest, of a realization of the value of money—and, of course, it avoids mistakes. At the end of the counting the clerk says: "Thank you, call again." It is hard to enforce the "Thank you" rule under ordinary circumstances; but when the change is counted it becomes almost automatic.

Advertising and Display.—The notion and variety chain does most of its advertising by means of window and counter display. One of the problems which the Woolworth chain has escaped by maintaining its five-ten-cent limit is the problem of price advertising. In the five-cent to one-dollar chains, for reasons of freight differentials, wage levels, and other factors, it is found difficult to maintain the same price levels in different places. Furthermore, individual managers vary widely in their ability to prepare

advertising, while a central advertising office finds it difficult to keep in touch with local conditions.

The constant object of the chain management is to find articles which will sell readily on sight. Practically the whole secret of the five-and-ten-cent stores' selling program is display. Beginning with the windows, the whole store is arranged with the one idea of displaying goods to the best advantage. Each counter is a miniature store in itself, with articles arranged according to their display value. The location of the merchandise in the store should be carefully studied with reference to the circulation of customers throughout the store.

The window display in the five-cent to one-dollar chain is normally designed to display as wide a variety of merchandise as possible, although, in case of sales, the massed display is used with great effect.

The Woolworth Company makes immediate adjustment if goods displayed do not sell. For example, if a large counter display of goods fails to sell, the space is immediately cut down and filled with more salable merchandise. Windows are used to show the best opportunities of the week, not the slow-moving goods. Sometimes an advance display of merchandise for the following week is placed in the window, if it is a special value.

Stock.—The five-and-ten-cent store is and should be an exact reflection of the community's likes and dislikes. This is more easily attained in individual five-and-ten-cent stores because of the wider scope allowed the manager in selecting his goods. Allowance also is made for small communities, where, naturally, stock turnover must be more closely watched than it is in cities where slower moving articles can be merchandised profitably.

The arrangement of stock is particularly important in the five-and-ten-cent store. The following alignment was used by the W. T. Grant Company for its store in New Orleans, ranging from front of the store to the rear:

Cut glass, ribbons, jewelry, candy, neckwear, toilet articles, and art goods.

Hosiery, bargain counters, gifts.

Sheet music, leather goods, books and stationery, notions, laces, and phonograph records.

Handkerchiefs, across the store.

Toys, knit underwear, radio, men's and boys' furnishings, glassware, and crockery.

Electric appliances, bargain counter, and millinery.

Paints and brushes, hardware, infants' wear, muslin wear.

Rugs and carpets, bargain counters, piano rolls.

Auto accessories, house furnishings, domestics, and draperies.

And across the rear, enameled and galvanized ware.

Five-and-ten-cent chains frequently grant temporary concessions to manufacturers. They are considered excellent publicity and in many cases serve as a drawing card for the store rather than as an attempt to sell the goods. The arrangement ordinarily is that, after the concessionaire moves on, the chain is given the agency and a certain percentage of profits made during the concession.

Permanent concessions often form miniature chains within chains. This may be true of the music counter which is run by a special company having a branch in each of the stores. Such a department is considered an added attraction and an inducement for customers to come to the store. A singer will often draw a crowd to the store. One chain grants a grocery concession in its stores as a drawing card.

The Store Manager.—The store manager in a notion or variety chain is a more important factor than in the case of the manager of the grocery or even the drug store. He has more authority and more responsibility; he must exercise his own judgment in many instances. He is trained in the general policies of the chain, but he must take care of the details, and he is judged on the basis of sales in his store. For example, there may be a chain rule that windows must be changed once a week, but he will have to attend to the window dressing. He must spend a great deal of time on the floor, keeping in touch with customers and employees. In the Woolworth chain, the manager must be constantly on the watch over his stock, particularly with regard to its speed in selling. He is given a list of goods which other managers in the chain find to be good sellers, and with an additional list of merchandise which can be shipped at once. It is the primary task of the manager to find out what the public in his town wants, and the wants of almost every town are found to differ.

Some chains have no printed rules for the manager, not even as to opening and closing hours of stores, or treatment of employees. He is judged purely by the results which he produces. He fixes salaries according to the wage scale prevailing in his community; he is allowed a certain percentage for advertising. The authority of the manager is naturally greatest in the small chain which cannot afford to maintain a corps of specialists at headquarters to design windows and to furnish unit stores with blueprints and detailed instructions. The store manager must use his own ability.

In the case of some chains in the five-cent to one-dollar field, which have not been successful, the fault has been found to lie in great measure in the choice of managers of mental caliber insufficient to handle the problems coming up for their solution.

The Woolworth Company employs what it calls "road men," who are former store managers employed to go from store to store coaching managers in merchandising and economy. If some one manager has perfected some particularly good method, he takes this and passes it along to the other managers. District managers are chosen from the road men, and exercise supervision over an entire district, particularly in regard to picking opportunities for new stores. The buyers are also selected from road men and district managers.

The Salespeople.—The five-and-ten-cent store normally has to contend with the lack of interest and the ignorance of the sales girls. The lack of interest is due to the small wages paid and the ignorance is, in great part, due to the large labor turnover. The low wages have been caused by a general feeling that since the goods were of such a nature that no sales effort was necessary, the class of girl hired could be of an inferior type. The natural result is an inefficient clerk.

The New York State Department of Labor investigators found that thieving was included by almost every manager as one of his greatest problems. The universal display of goods and indiscriminate use of cash registers make thieving comparatively easy. Both salesgirls and the public take things. One manager resorted to weekly inventories and shrinkage reports to check up losses apparently due to thieving. One store manager placed an empty box, done up carefully in paper and string, on a front

counter. It promptly vanished and in the course of a half hour 22 of these empty boxes had disappeared.

Much of the ignorance, dishonesty, and lack of interest among the salesgirls can undoubtedly be removed if the turnover is stabilized, and by the introduction of carefully planned methods of employment, as suggested in the chapters dealing with personnel problems.

The wages paid are ordinarily as low as possible. The high turnover tends to create plasticity in wages. The five-and-ten-cent store will pay just enough to give it a sufficient supply of girls, with rarely any attempt at making them permanent workers.

There is a tendency in the five-and-ten-cent store chains, as in department store and other retailing agencies, to better the condition of the salespeople. It is recognized, at least in theory, that they have a right to a living wage and the policy of store managers to make a good showing by reducing salaries of his salesgirls to the minimum is frowned upon, and justly so.

Hours.—There is no set time for opening or closing five-and-ten-cent stores. In general, they conform to the custom of the community. As a rule, stores in large cities open at nine o'clock and close at five or six o'clock, but in small cities and towns the hours are apt to be longer. In the majority of small towns the stores must remain open Saturday afternoon, while in cities they usually close during the summer. Stores of the same chain, one in a residential district and one in a business district, may keep different hours although in the same city. Independent stores are likely to keep longer hours than the chain stores. The amount of actual sales in five-and-ten-cent stores is small before 10 a. m., but clerks must be on hand at 8:30 or 9 a. m. to prepare for the day's business, restock counters, etc. Customers begin to come in large numbers from 11 a. m. on.

Figure 124 is taken from the New York Department of Labor investigation and shows the working hours of men and women for the entire week, for Monday through Friday, and for Saturday alone.

Approximately 80 per cent of the women worked over 48 hours a week. From Monday through Friday 30 per cent worked more than 8 hours a day but with an upper limit of 9 hours; 69 per cent worked under 8 but at least as much as $7\frac{3}{4}$ hours.

The men worked longer, 52 per cent of them working over 8 hours with upper limit of 11 hours. On Saturdays it was apparent that everybody was worked to the limit; 16 per cent worked 11 hours a day and 51 per cent worked 10 hours.

The best wages were found to be in stores with the shortest hours, and workers were paid less where hours were longest.

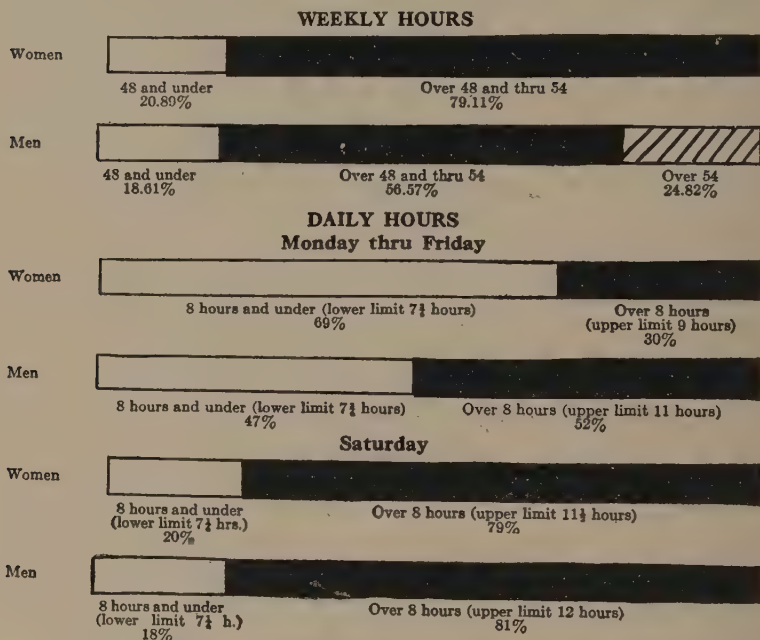


FIG. 124.—Schedule of working hours in five-and-ten-cent store chains.

Price and Manufacturing.—Before the World War, some chains had gone up to a 25-cent limit but many remained at the 10-cent limit. Now the F. W. Woolworth Company is practically alone in pursuing the ten-cent policy. All its competitors, although still calling themselves five-, ten-, and twenty-five-cent chains, in reality have raised the price as high as \$1 or over. It was discovered that the average sale of the department store is under \$1 and the chains immediately capitalized this point and branched out more in the line of dry goods and less in that of crockery and glass.

That this price widening has been successful is proved by the record of the stores that have followed this policy, particularly the Kresge organization. But that goods can still be made and sold at retail for 10 cents is also conclusively proved by the Woolworth organization, the profits of which have steadily gone on. There is evidently a field for both types of chains. The Kresge stores and others following the higher-priced policy are able to offer goods which naturally the Woolworth stores cannot sell. But there are many staple articles which can be made to retail at 10 cents and these will always prove a definite drawing card, even for the chains with higher-priced policies.

While the World War forced many chains to raise their price limit, the Woolworth Company adopted the policy of manufacturing those things which it could not induce others to manufacture. When the war made it impossible to get any more D.M.C. crochet cotton, it induced a manufacturer to devote his whole spinning output to making crochet cotton which the Woolworth chain put out under the private brand name of "Woolco." By following this policy of having articles manufactured under contract exclusively to meet their own demands, the Woolworth organization is taking a long step forward.

The small variety chain cannot hope to practice such economies, but it has the advantages and the disadvantages of the fixed price. Unquestionably, the low-priced appeal of the five-and-ten-cent store has proved its greatest sales asset.

The Manufacturer and the "Five-and-ten."—It was a long time before manufacturers could be brought to see the advantage of producing articles that could be retailed for 10 cents. It is true that all manufacturers cannot modify their products to meet this need, but many can, and many are doing so at the present moment.

It is a rule of selling that the best known article, and the one with the best reputation, will sell better than the unknown, unheralded product, no matter how good the latter may be. Therefore, manufacturers must come up to the standard of excellence set by the five-and-ten-cent stores. Their products must sell themselves, and they must pave the way for this sale by publicity, and they must keep the way paved so that this article will sell. The weak point so far has proved to be when

the manufacturer desired to sample his article where its hold was weakest. This is in direct opposition to the policy of the chain to sell it where it is strongest. The natural result is that, as all the stores in the chain do not necessarily sell the same articles, the samples are sold only where the demand proves satisfactory, and the manufacturer is brought up sharply where he was in the beginning. His product will sell only where his publicity has been successful.

Publicity must precede distribution through ten-cent-store chains. Otherwise the samples cannot compete with already established lines.

Mention has been made elsewhere of the value to the manufacturer of this sampling and the publicity it gives the product. The customer in the ten-cent store sees an article on display with a familiar name. It costs only 10 cents. She buys it, likes it, and the next time it is more than likely that she will purchase a full-sized package through the regular channels.

Sampling pays both the ten-cent stores and the manufacturer. It gives him the prestige incident to carrying a well-known brand. It relieves him of the imputation of retailing only cheap articles.

CHAPTER XXXIII

DRY GOODS AND APPAREL CHAINS

The selling of dry goods and clothing, shoes, hats, and other apparel has, from the earliest times, been an important retailing activity and it is to be expected that the chain should have made considerable inroads in these fields. Whenever the question of public taste enters the selling equation, however, there are new difficulties to surmount. The ordinary forms of clothing are not convenience goods, but rather shopping lines. Therefore, the turnover is likely to be slowed down. A customer does not come in and say, "I will take this or that." He says, "Let me look at this or that," and, if it does not suit, he goes away. Therefore, the problem of the chain retailer of dry goods and clothing is to pick out only those lines which the majority of people will choose. That is, there must be no ultra styles, there must be no odd sizes, and the stock must be limited in the supply of seasonal goods to what surely can be sold. Dry goods and clothing chains cannot afford to purchase far ahead. The Penney chain, which has been the most successful in the dry goods field, makes it one of its cardinal policies to buy no more than is immediately needed.

Another point which may cause difficulties to the dry goods chain is a difference of demand in different sections. This can be overcome only by allowing the local manager considerable latitude in his choice of stock. Although there may be a central purchasing organization, still that body acts in the closest cooperation with the local stores, and buys only what is certain to be approved by local managers. Even shoe manufacturers running their own local retail stores are careful to consult the local manager in advance of manufacture about styles for the coming season.

In shoe chains, the type of demand may be different in one section of the town from what it is in another. Hat chains,

haberdashery chains, and clothing chains have many seasonal problems to meet.

This type of chain, retailing shopping lines, has to do a great deal of advertising, and, consequently, it is possible that in some cases location may not play so important a part. In the Penney chain, for example, the appeal is through price and quality.

Shoe stores, however, retailing cheap shoes, which come practically under the class of convenience goods, must find suitable locations. All stores, of course, must locate in the section devoted to the trade they wish to capture. A shoe store retailing quality ladies' shoes would be out of place in the financial district.

In the dry goods store the control is far more decentralized than in the haberdashery, the hat, or the shoe store. The dry goods store usually has but one link in a town, while the other types of store have several. In general, the manager of the dry goods store hires his own clerks, chooses, if not purchases, his own merchandise, pays his incidental expenses, attends to local advertising, etc.

Even where chains have gained strong hold in dry goods and clothing lines, the general policy has always been to sell only the standard styles and sizes and at low or moderate prices.

The Department Store Chain.—According to Dr. Paul H. Nystrom, managing director of the Retail Research Association, the most rapid growth in chain stores is taking place in the dry goods and apparel field. It is his opinion that chain expansion will continue as long as the average managing ability of the independent store management is lower than the organized ability of the chain organizations, and as long as the buying power of the chains gives them an advantage over independent stores.

There are several types of chains selling dry goods:

1. *The Small-unit Standardized Type.*—This class of store carries merchandise in the lower-priced classes, in standard styles and sizes, employs few clerks, is largely located in small towns, generally in the South and Middle West, Pennsylvania, and New York. Purchasing is ordinarily done at headquarters, and close watch is kept of individual store operation by careful accounting methods. This type of dry goods stores is in direct competition with the small independent dry goods stores to be found in

medium-sized towns. The Penney chain is the best known of this type.

2. *The Large-unit Decentralized Type*.—A number of groups of the large department stores have found it advantageous to form associations for research and quantity buying. Also a number of groups are under one financial control, but each store is independently operated. There is much question whether this control is sufficient to entitle the organization to the name of a chain.

3. *The Large-unit Centralized Type*.—One of the most interesting developments in the chain method of distribution has been the sudden interest in the possibilities offered for a chain of department stores, each department of which forms an inner chain. If there are 10 stores, each of which has 50 departments, there will be 50 subchains within the larger organization. According to the present plan, 10 department stores with 50 departments each would mean approximately 500 buyers, while under the chain plan it would mean only 50 buyers. Furthermore, the quantity discounts to be obtained would be much larger, and the economies due to centralized managerial control would also be great.

Some of the largest stores in the country are interested in this development. E. A. Filene, president of William Filene's Sons, of Boston, Mass., predicts that the department store must adopt chain methods if it is to maintain its present leadership in the retail field. S. S. Kresge formed a company and purchased two of the large department stores of the country, with the intention of adding to them as the opportunity presents itself. Gimbel Brothers have merged their New York and Philadelphia stores, and have also acquired control of Saks and Company. The National Department Stores, composed of stores formerly belonging to the Affiliated Retail Stores and to the Frank and Seder group, have been organized. The May Department Stores have purchased Hamburgers in Los Angeles. Under the name of the City Stores Company, three of the large southern stores—Loveman, Joseph and Loeb of Birmingham; Maison Blanche of New Orleans, and B. Lowenstein of Memphis—have combined. R. H. Macy and Company, Inc. of New York, has purchased a substantial interest in the LaSalle and Koch store of Toledo, Ohio. Scruggs-Vandervoort-Barney of St. Louis has

acquired the S. L. White Company of Columbus, and the Denver Dry Goods Company of Denver.

All these mergers point to but one conclusion—that the department stores of the country have awakened to the necessity of obtaining the economies of mass selling and centralized management.

The New J. C. Penney Plan.—In 1927, the J. C. Penney Company gave up its old partnership plan and adopted a scheme of corporate organization. It was still believed that the partnership plan was the best for a small organization, up to 200 stores, but not for a chain of 800 units. Under the new plan, managers are paid a salary and receive a share of the profits of their stores as well. They are also permitted to buy common stock in the company, which is not obtainable by the public, and they can buy only if their records are satisfactory.

According to W. H. Dannat Pell, of the Legal Department of the company,¹ the following advantages are obtained by the new plan:

1. Under the old, classified-stock plan, the company could not purchase other chains in the same field. While this did not matter in the early stages of expansion, when 800 stores were reached, new locations were hard to find, and it seemed desirable to take over certain chains, such as the 54 stores of the F. S. Jones Company and the 20 Golden Rule stores, taken over in 1927.

2. The new plan allows the formation of subsidiary companies in various states or even in foreign countries.

3. Capital may be concentrated which will permit the company to go into the larger cities if it deems this advisable.

4. Growth and wider usefulness of subsidiary company, such as the J. C. Penney Building and Realty Corporation and the Crescent Corset Corporation, are permitted.

5. The company can choose the best available men from the employees for managers of new stores, or of old stores where the position is vacant through death or retirement.

The previous classified common stock, which represented an interest in individual stores, has been exchanged for common stock and 6 per cent preferred stock. In brief, the conversion process was as follows:

¹ See *Chain Store Age*, July, 1927.

Out of an authorized issue of \$15,000,000 in Class "A" 6 per cent preferred cumulative stock, \$8,468,600 has been issued.

Out of an authorized issue of \$10,000,000 in classified common stock \$8,520,000 has been issued.

Out of an authorized issue of 100,000 shares of unclassified common stock of no par value, 35,184 shares have been issued and these are carried at \$66,310.12.

The surplus account is carried at \$13,670,793.36, showing an invested capital of the company to be carried at \$30,728,703.48.

The detailed growth of the stores and volume of business, year by year, follows:

Year	Number of stores	Gross business
1902	1	\$ 28,398
1903	1	63,522
1904	2	94,165
1905	2	97,653
1906	2	127,128
1907	2	166,313
1908	4	218,432
1909	6	310,062
1910	14	662,331
1911	22	1,183,279
1912	34	2,050,641
1913	48	2,636,920
1914	71	3,560,293
1915	86	4,825,072
1916	127	8,415,877
1917	177	14,880,965
1918	197	21,336,795
1919	¹ 197	28,778,230
1920	297	42,822,564
1921	312	46,641,928
1922	312	49,035,729
1923	475	62,188,978
1924	571	
1925		
1926		
1927		

¹ No stores were opened in 1919, following the World War.

Figure 125 illustrates the principal locations of Penney stores.

Penney Policies.—The rapid growth of the Penney stores makes a statement of the policies by which it won this success of interest:¹

1. To establish selling on a strictly honorable basis, uniform in the standard of service available at every store. The Golden Rule is the only standard acceptable with us. Every customer is entitled to courteous treatment, efficient service, maximum values, and, in fact, every advantage which the scientific study of our business will permit.



FIG. 125.—Chain Store Age, July, 1925.

2. To maintain a community survey whereby we shall be alert to community preferences and capacities in buying. As stewards of the buying public it is our business to safeguard their interests. Thus is the overhead charge kept at a minimum figure.

3. To charge only a reasonable profit on each sale. Thus, we give the customer the advantage of our experience in buying and selling. He repays us not only by giving us his continued and substantial patronage, but by sending additional customers to us. There is a unique satisfaction in this method of selling.

¹ See complete statement by E. C. Sams, president of the company, in *Annals of the American Academy of Social and Political Science*, Vol. CXV, September, 1924.

4. To work for the upbuilding of every community in which we are represented. We urge that our managers must prove themselves to be as worthy in citizenship as they are in business. They are in reality

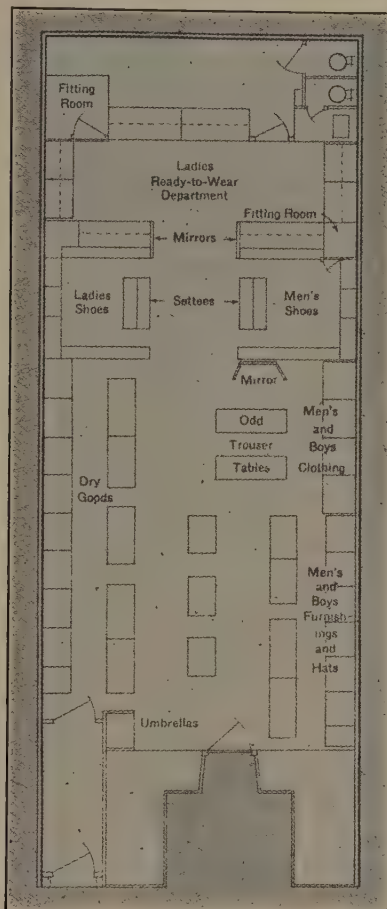


FIG. 126.—Layout for Penney store. (System.)

partners in our organization, and when we pay taxes in the community we wish to see personal effort employed to justify the investment made.

5. To employ local sales people whenever possible. However, they must measure up to the high standards we have already found advisable. We pay good salaries, always equal those paid by other merchants and,

in addition, a bonus is paid the women, with a possible manager-partnership as the reward for the men who qualify with us.

6. Constantly to seek improved methods of selling, more expert buying, to standardize all proved methods by means of educational bulletins, house organ, and a training course provided for all employees. We try to instill into every salesperson the desire not only to sell but *to serve*. We insist that he shall be more than an average clerk. That he shall carefully consider the customer's interests. To this end we endeavor constantly to improve the standards of service and to maintain it uniformly good in all stores. Our Business Training Course (free to all associates) thus produces a concerted effort in all communities where we operate.

Figure 126 shows a typical layout for a Penney store.

The Credit Clothing Chain.—Clothing chains may deal exclusively in either men's or women's clothing, or they may combine the two. Contrary to the cash-and-carry policy prevailing in most other lines, in the clothing field the credit problem is vital, particularly with the great increase in instalment selling. The chains in this field are numerous and are expanding fairly rapidly.

The experience of the Samuel Stores, Inc., with 32 stores, is indicative of conditions generally in the field. This chain sells men's and women's apparel on a credit basis in cities in New York and the Middle west. The problem, as always, is to be strict enough in credit requirements to keep down losses from bad debts, and, on the other hand, to be liberal enough to build up volume. Volume is regarded as the principal safeguard against changes in the credit situation. By having the individual stores in the chain spread out over a broad area, the risk of credit losses is less, because conditions affecting one locality often do not touch another.

Credit conditions, according to the experience of this chain, differ widely. In one city it may be as low as 1 per cent, while elsewhere it will be as high as 7 per cent. There is also a difference in reliability between various nationalities, trades, and occupations, but, in practice, each case is decided on its own merits. Store managers pass on credits, and must, therefore, be expert in judging human nature. Even the salesmen must be trained to get as much credit information from the prospect as is possible during the selling process. The interesting thing

about this chain is that cash sales are regarded as unimportant; in fact, the salesman tries to convert the cash customer into a credit customer. The reason for this policy is the desire for volume, which can be built up better on a credit foundation. Credit customers will buy other merchandise at the store, while cash customers may go elsewhere.

As soon as a sale is made, the sales slip is made out and brought to the manager for acceptance or rejection, and, if accepted, for arrangement of terms, and the amount of the first payment. No terms will be discussed until after the sale has been made, and terms are made, not according to any set rule, but to suit the individual case. No credit will be extended, however, for more than 20 weeks. Weekly payments are preferred, although some accounts are semimonthly, and a few monthly. It is desired to have payments made at the store, but with the increase of the instalment plan, it is likely collectors will have to be employed.

Figure 127 shows the sales slip, the principal information on which is:

1. How long the applicant has lived at his present address and whether he keeps house or lives in a furnished room.
2. Married or single.
3. Former address and how long he resided there.
4. Where employed, what department and length of employment there.
5. Names of parents and places of residence.
6. Name and address of a relative.
7. Name and address of a friend.
8. Other credit accounts and at what stores.
9. By whom recommended.

If the answers to the first few questions are obviously satisfactory, the rest of the slip is not always filled out. Wherever possible, the benefit of any doubt is given to the customer. No effort is usually made to check up information given. The principal reliance on the accuracy of the customers' statements is the delivery of the merchandise at the address he has given.

Figure 128 shows the lease card used to keep track of instalment payments. A very elaborate system of collection letters is

STORE NO. _____ (Fill In)		Date _____ 19__	
Contract No. _____		Reopen of Acct; No. _____	
		New Acct. _____	
		Addition, making new balance \$ _____	
Miss _____		If married mention Husband's or Wife's Name	
Mrs. _____			
Mr. _____			
Name _____			
Address _____			
Boarding with _____		How long? _____	
Salesperson _____		Keeping House furnished room	Nearest Phone _____
		(own furniture) Owns own home	

Article	Price	Size	Our Lot	Mfg. Lot		Gets paid on _____
						M-T-W-T-F-Sat.
						Terms \$..... Every.....
						At Store?
						Down Payment \$.....
						C.O.D. \$ when
	R	E	T	U	R	N
						E
						D
						Color

Former Address _____	Include Street and Number	when _____
How long? _____		First payment of \$.....
He employed by _____	How Long? _____	Due _____
Department _____	Check No. _____	ADDITIONAL INFORMATION
Foreman _____	Plant _____	To be obtained where advisable
Former employer _____	How Long? _____	Insured in _____
She employed at _____		Branch at _____
His parent's name _____		Member of what Union or Lodge _____
Street address _____		
City _____		
Her parent's name _____		Goes to _____ Church
Street address _____		Children's Names _____ Age _____
City _____		
Relative _____	Address _____	Age about _____ Height _____
Friend _____	Address _____	Weight _____ Build _____
Also has turniture, Jewelry, Clothing, Phonograph		Eyes _____ Hair _____
Account with _____		
Recommended by _____		
Address _____	Lease No. _____	

REMARKS:

FIG. 127.—Upon the information collected on this sales-slip depends the store-manager's acceptance or rejection of the credit slip.

used. The garnishee process is very rarely resorted to as a matter of policy.¹

[illegible]

FIG. 128.—The “lease-card” used to keep track of installment payments.

Collections.—Some chains leave the problem of collections up to the local managers, allowing them to use their own ability in collecting and judging them on the results. Other chains conduct collections from headquarters, relying somewhat on the greater effect of letters from this source. It has often been proved that store managers are not good collectors and good merchandise men at the same time. Even where they are per-

¹ See *Chain Store Age*, February, 1926.

mitted to grant credit on their own judgment, and this is virtually necessary in every case, it does not follow that they are the best instruments to utilize in the collection of past-due accounts. Yet in many cases the manager must see to collecting his accounts. Much of his success will depend on his acumen in granting the original credits; much also on his knowledge of methods likely to produce the best results.

Milward Pick, former executive in chain store clothing organizations, recommends the following ten fundamental rules for collecting:¹

1. The day after the customer fails to pay, a collector should call and find out (a) why he did not pay as promised, and (b) when he will make up the payment he missed.
2. Every collector's unsuccessful call should be followed up by a letter from the manager. The debtor often feels that a collector can be put off; a manager is of more importance.
3. There must be perfect teamwork between collector and store manager; the ideal combination being collector's call, then letter from store, then collector's call, then letter from store, etc.
4. Every action taken, whether collector's successful call, "not home" report, promise to pay, or form letter sent out, should be noted on the card, showing the date when such action was taken.
5. Persistency is perhaps the most necessary qualification of the collector. He must persist until he sees whomever he wishes to see, and he must keep seeing him until the debtor eventually weakens.
6. Persistency on the part of the manager (or his assistant who handles collections) is also necessary. Letters should be frequent.
7. Unless the promise for payment on a certain date is made for just a few days hence, a reminder should be sent the day before the payment is due, rather than a dun the day after.
8. Each letter that goes out should be stronger than its predecessor.
9. Where customers have moved, each bit of information that offers a clue should be utilized.
10. Where it is not an actual hardship to the customer, it should be arranged so that he brings his payment to the store.

Shoe Chains.—Expansion in the shoe-chain field has been exceptionally rapid in the last decade. The outstanding tendency is the operation by one management of several chains operating under different names, and often selling at different price

¹ See *Chain Store Age*, September, 1926.

ranges. Thus, the Wise Shoe Company, in its original chain, sells at a \$6 price, while it has a subsidiary chain, under the name of Golden Rule Shoe Stores, which features a shoe at \$4.60. The Petot Shoe Company, of Cleveland, also has a secondary chain of Evarts shoe stores, the parent chain selling at \$5 and the other at \$3.85.

The largest chain in the field is M. Samuels and Company of Baltimore, with more than a thousand units distributed among the Newark Shoe Stores, the Dixie Shoe Stores, and the Henry Clay Shoe Stores. The G. R. Kinney Company is also a well-known chain. The Melville Shoe Corporation operates three chains, namely, the Thom McAn, Rival Shoe Stores, and John Ward. The Feltman-Curme Shoe Stores Company, of Chicago, is another of the dual-price chains. In nine-tenths of its stores, men's and women's shoes are sold at two prices of \$5 and \$6 a pair. In 1926, a chain was started called "Ford's Four Forty Stores," which aimed to cover the field for cheaper shoes.

In addition to shoe stores proper, there are several chains of shoe-repairing shops, such as Klein's Rapid Shoe Repair Company, in New York. There are also some shoe-shining chains.

There are, of course, a great many manufacturers' chains in the shoe field, such as the Regal Shoe Company, W. L. Douglas Shoe Company, Rice and Hutchins, Hanan and Sons and many others equally well known.

Stock Control.—The problem of keeping stocks turning over in stores has always been a major one with shoe chains. A method which has aroused much interest has been devised by the Regal Shoe Company,¹ one grade and only 100 styles are stocked by the company, due to a single-price policy. Demand has been calculated so carefully that fill-ins can be shipped out of floor stock manufactured in advance. Elmer J. Bliss, president of the company, had been struck by the tremendous waste due to "end sizes." He thought this due to making provision for more odd-sized feet than there actually were. The average dealer had from 25 to 33 $\frac{1}{3}$ per cent of odd sizes, which had to be moved at a loss.

Careful analysis of the Regal records showed that out of a possible 79 sizes and widths, 75 per cent were on 19 sizes and

¹ Described in *Chain Store Age*, January, 1928.

widths. Thus, out of a stock of 1,000 pairs of shoes, a store should carry 710 pairs in the 19 sizes and widths. In the end or slow-moving sizes and widths there were 19 on which the business done was about one-fourth of 1 per cent. It was found possible, on the basis of statistics, to plan a stock of shoes which would leave none left over on the shelves at the end of the season yet send 98 per cent of customers away satisfied.

The Resco Size Control Board was used to control this standardized stock system. It consists of a metal base, 33 by 18 inches, marked off into 136 squares, comprising all sizes and widths in stock. Squares are divided into white, yellow, blue, and red fields. The 20 squares in the white field signify "safe," or sizes which comprise 71 per cent of the sales. The 11 in the yellow comprise the "cautious" group, including about 17 per cent of the sales. In the red field are 19 sizes, called "T.N.T.," which account for about 1 per cent of sales.

Shoes are additionally classified according to style, that is, as staples good for 3 years, semi-staples good for 3 seasons, and seasonals good for 3 months only. Staple lines are carried in complete size ranges covering the white, yellow, blue, and red fields. Semistaples are carried in white, yellow, and blue fields; seasonals are carried in white and yellow only, and if the shoes are extremely short lived in style, they are carried only in the white field.

In the center of each size square there is a post, just high enough to show the number of pairs of shoes of that size which should be in stock. Discs, each representing a pair, or given number of pairs, slip over the posts, and each time a sale is made, one of these discs must be removed by the salesman, and handed to the cashier with the sales slip. When shipments are received, appropriate discs are put on the posts. Post extensions can be put on when a surplus of stock is on hand, but a red disc marks the beginning of the overstock, which is not dangerous in the white squares, but in other fields is a warning signal.

The Regal Shoe Company has also done a great deal toward eliminating selling time by its so-called Resco Measuring Machine, which, eighty-six times out of a hundred gives the correct size and width the first time.

The Shoe Chain and the Manufacturer.—There are many manufacturers' chains in the shoe retailing business, and this is natural because of the necessarily close relationship between manufacturer and retailer in this line. Even where the chain and the manufacturer are under totally different management, it is desirable to have a close understanding. The shoe chain is in a far better position than the manufacturer to judge of the character of coming demand. He should, therefore, have something to say about the manufacturer's program of production. It is better for him to work with the manufacturer in this way rather than to take models and lines evolved by the manufacturer without any adequate understanding of the nature of the demand.

The Wise Shoe Company, of New York, goes so far as to have its buying department assist in the manufacture and routing of merchandise in the following ways:¹

1. The manufacturer is instructed to use certain type lasts for different styles.
2. The patterns adopted for use are those inspected and passed on by us.
3. The materials of manufacture are either selected or designated by us.
4. The important phases of the cutting, fitting, lasting and making of the shoes are outlined for his adoption.
5. The packing of the merchandise is important as time is saved by the retailer in receiving, checking and unpacking, when they are familiar with this procedure.
6. Shipping instructions are necessary to expedite delivery at a low cost.
7. The billing of the merchandise is outlined so that these records may tie in with our accounting system.

This chain has gone so far as to act as the manufacturer's financial agent, sometimes advancing money to purchase leathers and other materials. Any shoe chain, however, will find it profitable to work closely with the producers, particularly if many of the shoes are style lines.

Hosiery as a Side Line.—The main argument for any side line is that it will increase volume of sales and bring more customers to the store. Many chains of shoe stores have added

¹ See *Chain Store Age*, p. 16, February, 1927.

hosiery as a permanent side line and found it profitable. Some chains have a turnover in hosiery of from twenty to twenty-four times a year, while turnovers of fifteen times are common.

The principal opposition to the side line comes from the sales force. It has been found, in some cases, that shoe salesmen feel that the retailing of hosiery is a woman's job. The only remedy for this is to put a commission on hosiery, ranging from 5 to 10 per cent, and perhaps some sort of bonus for volume. One chain pays 10 cents per pair on all hosiery, and, not finding this sufficient to get support from the sales force, manages it so that the salesman merely asks the customer whether she would not like to match her new shoes with hosiery, and if she is willing, then she is taken to the girl in the hosiery section, and if she buys the salesman gets the 10 cents.

Hosiery probably does not account for more than 5 to 15 per cent of the total volume of sales in shoe chains, and the degree to which carrying hosiery stimulates shoe sales is uncertain. How much overhead to charge to hosiery has not been figured out accurately. One company charges 5 per cent for hosiery overhead, and 27 per cent for shoes. The Forsythe Company estimates the mixed business per 100 pairs of shoes per store as follows:¹

100 pairs of shoes, at \$5 per pair.....	\$500.00
50 pairs of hose (1 pair of hose to 2 pairs of shoes) at \$1.35...	67.50
3 pairs of shoes (sold per 100 pairs of shoes through hosiery) at \$5.....	15.00
Hosiery and shoe total due to hosiery.....	\$ 82.50
Total sale hosiery and shoes, \$500 plus \$67.50.....	\$567.50
Percentage of total store sales volume due to hosiery.....	14½ per cent

Haberdashery Chains.—A field in which prosperity and depression has alternated is that of men's wear and haberdashery. Most of the chains in this field get as close as possible to the convenience class. A man will buy a shirt, a collar, or a necktie at almost any store, while he will go out of his way to buy a suit of clothes. The Chain Shirt Shops, Inc., once controlled by the Phillips-Jones Corporation, manufacturers of shirts, has been split up among four different organizations.

¹ *Chain Store Age*, July, 1926.

The United Shirt Shops started out in Johnstown, Pa., as the United Dollar Shirt Shops in 1916. The rapidly advancing prices caused by the World War made it advisable to change the name to the United Shirt Shops.

The National Shirt Shops, which also started out to retail shirts at \$1, had a particularly hard time in weathering postwar conditions. It had overexpanded and rashly entered into the clothing field. This latter line was given up, and from 68 stores, a cut was made to 40 of the strongest. Lines carried were but 20, of which shirts represented approximately 50 per cent and neckwear 20 per cent. Each store manager orders what he thinks he can sell. In this chain, payment is strictly on commission, with a bonus ranging from one-half of 1 per cent to $1\frac{1}{2}$ per cent on monthly sales over a minimum quota.

Jacob Kagan and A. Fred Podren have described the method they followed in installing an accounting system for a chain of retail men's wear shops. Where the chain is too small to maintain a warehouse, as most of them still are, goods are sent to the stores with memorandum of goods shipped, but with no prices. The manufacturer sends the office a duplicate of the memorandum containing, however, the cost prices. The store manager signs a receipt and forwards it to headquarters. To avoid delay, the central office, as soon as it receives notification of shipment from the manufacturer, sends invoices to the stores of the goods at retail prices, and these invoices arrive in advance of the goods.

Cash received for goods sold is rung up on the cash register, and cumulative record of sales is thus kept. Every evening, the cash register readings are put on the daily cash report, the difference between the previous reading and the one for the day in question forming the gross sales for the day. The store manager deposits all cash at the bank and the bank teller stamps his report in the space provided (see Fig. 129).

On the reverse side of the form is a place for all cash expenditures. If paid at the store, an amount must be deducted from deposits at the bank, but the better way is to have them paid by check from the central office.

Figure 130 shows a simple form of inventory for use in small haberdashery chains. Columns are provided for different-priced

articles in the store. The quantity only is placed in the price column. Total inventory can quickly be found by multiplying and adding totals.

This way of taking stock, according to the *Haberdasher*, is quick, and supplies all information in which the accounting

FORM A**Reverse Side, Form A**

O O CHAIN HABERDASHERY SHOPS DAILY CASH REPORT			
Store No. _____		Manager _____	
Day of Week _____	Month _____	Day _____	Year _____
Register Reading After Last Sale Today ..	_____	_____	_____
Register Reading After Last Sale Yesterday	_____	_____	_____
SALES FOR TODAY	_____	_____	_____
Expenditures (see reverse side).....	_____	_____	_____
BALANCE—DEPOSITED IN BANK	_____	_____	_____
O. K'd by _____		Approved by _____	
Name of Bank _____		(BANK STAMP)	
City or Town _____			
DEPOSITED BY			
CHAIN HABERDASHERY SHOPS BOSTON, MASS. Date Deposited _____ 192__			
Bills _____	_____	_____	_____
Specie _____	_____	_____	_____
Checks on _____	_____	_____	_____
" _____	_____	_____	_____
" _____	_____	_____	_____
" _____	_____	_____	_____
" _____	_____	_____	_____
" _____	_____	_____	_____
TOTAL		_____	_____
Manager:—Please itemize your expenditures on the reverse—NOW.			

CASH EXPENDITURES		
Store No.	Day	192__
Paid the following expense items:		
Help (give full details)	_____	_____
_____	_____	_____
Ice Water	_____	_____
Express	_____	_____
Postage	_____	_____
Removing Rubbish	_____	_____
Other Items (list each individually)	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
Total (carried on Reverse Side)		_____
Manager.		_____
Remarks, Suggestions, etc.		

FIG. 129.—Form of daily cash report used in haberdashery chain.

department is interested. This department (accounting) is interested only in the amount of merchandise represented in dollars and cents. Its lookout is not as to the kind of merchandise in the stores.

Form B[illegible]

Reverse Side, Form B

BOOK INVENTORY CHARGES		INVENTORY		BOOK INVENTORY CREDITS	
Inventory Beginning		Store No.		Sales to Date	
Shipments		Address		Reductions	
Journal Charges (<i>Transfers, etc.</i>)		Manager		Special Sale Reductions	
Advances		Taken By		Journal Credits (<i>Transfers, etc.</i>)	
Sundries		Date—From to		Sundries	
		Figured By			
		Physical Inventory			
		Book Inventory			
		Over (black ink)			
		Short (red ink)			
		BOOK INVENTORY			
		Summary Charges			
		Summary Credits			
		Balance			
		Book Inventory			

FIG. 130.—Form of inventory in haberdashery chain.

Each store manager is supposed to keep a store ledger, in which he charges himself for goods received and credits himself for

cash turned in. All his entries are made at retail prices. In times of rapid price changes, there will be entries for mark-ups and mark-downs. Where goods are frequently changed from store to store, there should be space for transfers.

The above system is exceedingly simple and is not recommended for any but small chains which cannot afford the overhead expense necessary to install a more complex accounting system. This method lays the responsibility for watching the particular items in stock on the store manager himself as checked up by the district superintendent. In more complete systems, inventories contain detailed account of all items in stock.

In the men's furnishing shop, as well as in the hat store and the shoe store, the element of salesmanship enters. Service is far more important than it is in the drug store, the grocery store, or the five-and-ten-cent store. But the sale is complicated whenever a choice is to be made by the customer, and where the attitude of the clerk may mean a large or a small sale. A good haberdashery salesman will build a collar sale into a shirt sale. The higher the type of salesmanship required the more difficult it is to secure adequate control in a chain. Thus, the problem of the personnel is even more important in stores dealing in shopping lines than it is in those handling convenience goods only.

Hat Chains.—Chain stores in the hat industry have existed for 20 years or so, but in that time they have expanded slowly, and not with the remarkable rapidity characteristic of other lines. Among the leading companies in the field are Sarnoff-Irving, B. H. Kaufman, Wormser Hat Stores, Snyder's, Inc., Long's Hat Stores, Truly Warner, Kenton Hats, and Young's Hat Stores. In addition, there are clothing chains such as Browning, King and Company, which carry a line of hats.

Some of the chains handle hats at a limited range of prices; others carry a wide range. All chains have to struggle with the endeavor to make the hat business less and less of a seasonal one. The methods and policies used by Long's Hat Stores, operating approximately 50 stores, have been particularly well worked out. This chain carries a wide range of styles and prices, which requires careful training of salesmen. Each new member of the sales force must undergo a month's training, two of the largest New York stores being used for training purposes. The new recruit

learns the stock, the renovating of hats, and how to handle simple complaints. Before he is promoted to be a manager he must spend two or three rush seasons with the company. These come three times a year—the felt season, the spring season, and the straw season—and during these seasons a great many extra salesmen must be taken on. The regular salesmen are virtually store managers during these weeks.

The commission system is used, each hat being marked in code with the commission which it carries. The scale of commissions varies with the importance and difficulty of selling a particular hat. Special premiums are usually attached to a novelty product.

Advertising and sales effort is usually concentrated on the natural selling season, although effort is also expended to make the business spread over the year as evenly as possible. Frequent changes of window trims helps a great deal to stimulate business during dull periods.

Other Apparel Chains.—There are a number of chain enterprises in other apparel fields which have not been treated in this chapter. For example, there are a number of stores specializing in women's wear of various kinds. There is the Bedell Company, of New York, the Belmont Stores Corporation, and others selling a fairly broad line. The New York Waist House, Inc. has over 70 stores, dealing in a narrower line.

Several manufacturers have retail outlets, partly for profit and partly as sales laboratories, in order to test out the market demand. Such stores are to be found chiefly in the hosiery and corset fields.

Millinery chains, at one time rather scarce, have commenced to grow, particularly as leased departments in department stores.

There are small chains of furriers.

In this connection might be mentioned chains which specialize in cleaning clothing, such as Lewandos.

CHAPTER XXXIV

OTHER CHAIN FIELDS

The development of chain stores has followed the lines of least resistance. The first fields to be taken up and exploited were those devoted to the retailing of necessities and of products which everyone uses constantly. The grocery chain, the drug chain, the five-and-ten-cent-store chain, and the clothing and apparel chain are in this class. With the development of chain stores, however, with the better functioning of method, and the cumulative force of a successful enterprise, the chain store idea has grown in two directions:

1. It has been extended to the retailing of articles which cannot strictly be called necessities, but which many people find necessary to their comfort. In this class come the tobacco and confectionery chains, which are founded on habit, and the optical chain, which is based on defective vision. There have been long-established chains in these fields, but, except for the United Cigar Stores Company, their growth has been slow compared with that of the grocery and five-and-ten-cent-store chains.

2. It has been extended to the retailing of products which necessitate special service. To this class belong the restaurant chains, where food has to be prepared and served. It also includes chains of hotels, theaters, and places of amusement, which have successfully applied the principles of chain operation to their special problems.

The following types of chain are discussed in this chapter:

1. Tobacco.
2. Candy and confectionery.
3. Bakery.
4. Restaurant.
5. Hotel.
6. Optical goods.

7. Automobile accessories.
8. Hardware.
9. Barber shops.
10. Motion picture and theatres.
11. Loan offices.

The Retail Tobacco Chains.—Some of the most efficient and profitable methods of chain operation have been developed in the tobacco field. The United Cigar Stores represents a case where a man saw opportunity and seized it. When George J. Whelan decided that his eight stores in Syracuse, N. Y., were not large

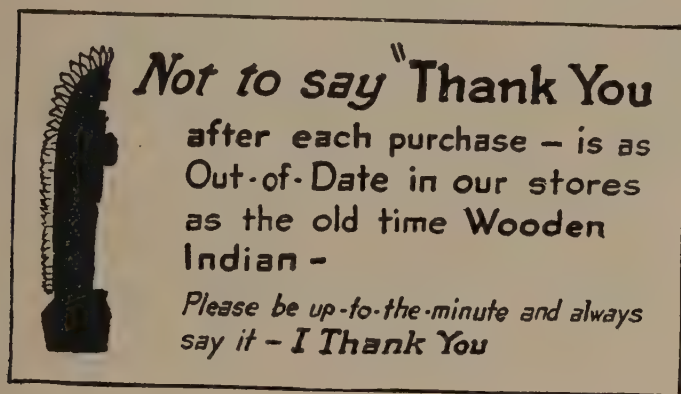


FIG. 131.

enough to satisfy his ambition, and came to New York City, a new era was opened in chain store development as well as in retail tobacco merchandising.

The independent cigar stores had been losing ground steadily to the drug stores, the hotels, and the news stands, all of which carried cigars and tobacco. The cigar-store Indian stood for all that was antiquated in retail merchandising. The United Cigar Stores Company was formed in 1900, and the principles which it adopted at that time are still in force. Reducing the location of his stores to a science, Mr. Whelan went a step farther, and, in the days when personnel administration was a name without meaning, he drilled his men with the principal idea of having them render service to customers. He standard-

ized merchandise, standardized the appearance of his stores, standardized his methods of accounting, and, most important of all, succeeded in getting his clerks interested.

Several small chains were absorbed during the process of development but, on the whole, the progress has been systematic. Large cities were chosen first, in which the per capita consumption of tobacco was highest. Then smaller centers of population were covered. As fast as statistics show that a community is able to support a United Cigar Store, one is established there.

From the outset, the chain has insisted upon a policy of courtesy to the customer (see Fig. 131). The company is constantly experimenting with methods of extending courtesy. For example, various methods of furnishing matches were tried. The present rule is to hand them to the customer when he asks for them, but not to throw or slide them at him. In the Greater New York territory the plan was tried of giving a package of matches with every purchase, but it was concluded that the additional expense was not warranted by results, and did not receive the appreciation of customers. The customer did not notice the gift because it accompanied the purchase.

According to John Blakely, assistant vice-president (*Retail Ledger*), the company finds that, even where a customer declines matches, the thoughtfulness of the salesman in bringing matches to his notice is appreciated as a courtesy, while customers who accept matches are doubly appreciative because the extra mental operation brought about by the salesman's question prevents the gift from going unnoticed.

A printed list has been compiled of greetings to customers, ways of showing merchandise, methods of counter and window display, and ways of selling goods. Copies of this are distributed to all stores.

Great stress is laid on the performance of gratuitous services which build future goodwill, such as making change and selling postage stamps.

By its long portended union with the Schulte Retail Stores Corporation, the United firm is far ahead of all its competitors.

Herbert S. Collins, vice-president of the company, ascribes its success to the following six factors:¹

¹ See *Chain Store Age*, p. 65, May, 1926.

1. Quality merchandise.
2. Service.
3. Skillful selection of sites.
4. Skillful window and store display.
5. Capable personnel.
6. The coupon system.

The coupon system was adopted as a method of keeping trade which would otherwise go elsewhere to purchase the same brands. The customers were able to trade in their coupons for merchandise which was worth far more than they could have obtained by any cash discount. In one year \$6,000,000 worth of coupons were redeemed.

An interesting experiment is being carried out by the United Cigar Stores in the shape of a machine for vending cigarettes and smoking tobacco. The purpose of the machines, if they prove satisfactory, is to eliminate much of the automatic work now done by sales clerks, and to allow the manager to spend more of his time in actual selling. These machines are useful mainly for nationally advertised articles.

There are several other well-known tobacco chains, such as that operated by the General Cigar Company. There are also local chains such as the Joseph T. Snyder Retail Cigar Stores Inc., the nine stores of which are in Buffalo. Telephones are used a great deal in selling, rush orders are delivered, direct mail is used, and all other methods of sales promotion which are applicable.

In starting a tobacco chain, the location of the member stores is undoubtedly the most important consideration. Men will not go out of their way to buy standard brands which can be procured anywhere at a standard price—hence, the corner-location policy of the United Cigar Stores Company.

The second requisite for success is an exceedingly rapid turnover. Once in 30 days should serve as an average. This is necessary in retailing products on such a narrow margin of profit. The tobacco field has been particularly subject to cut-price wars in the past, but, as has been pointed out elsewhere, this policy rarely brings any actual advantage to the firms concerned.

Candy and Confectionery Chains.—Candy has always been a profitable field for chain store development, and there are a great

number of organizations. Huyler's, one of the original chains, has recently been taken over by the Schulte interests. The Mirror Stores have been absorbed by the Happiness Candy Stores chain. The Frank G. Shattuck Company, which operates Schrafft's stores, has added units of a very elaborate character. In addition to the above named, the Fanny Farmer Candy Shops, Inc., the Mary Lee Candy Shops, Inc., Loft, Inc., and Page and Shaw are well-known and prosperous chains.

Several chains operate lunch counters or serve light lunches at tables in some of their stores. Schrafft's and Huyler's are noteworthy examples. This service is only practicable in stores in or near shopping or business centers. Page and Shaw, in addition to manufacturing their own candy, also operate a chocolate factory and a box factory.

Candy is bought mostly by men and regardless of where they happen to be at the moment. Therefore, location plays an essential part in the success of the candy chain just as in the tobacco chain. The window display is important. Windows have to be changed frequently because of the perishability of the product. Many candy chains arrange new displays daily, except for some special seasonal display, which may remain a week. The message which the candy stores are constantly trying to emphasize is the freshness and the quality of their products. In the Loft stores, for example, candy is frequently displayed sliced across the center to give a further effect of freshness.

Frequently, a number of chain candy stores are located close to each other and there is little choice between the locations. Assuming that the price appeal is approximately the same, recourse must be had to quality and service. Attractive window displays and local advertising will create an atmosphere of quality. Goodwill may be secured by good service. A candy store cannot sell too cheaply, or the quality will be suspected.

The Happiness Candy Stores, Inc., one of the largest chains in the field, has done a great deal of experimenting. When first establishing its stores, it experimented in locations with a view to finding out which type was most profitable. The result was that, given density of population, shopping, residential, transient, and theatrical sections offered about the same possibilities for business. This company believes the best site should be secured,

and existing competition is regarded as no obstacle. Of the employees, 75 per cent are women; men predominating only where business hours are such as to make them more desirable. Soda dispensers are all men, often working, however, under a woman manager. Tea rooms are under the executive management of men. Flat salaries are paid the salesforce, with extra incentives offered through contests every few weeks. Merchandising and window display is centralized at headquarters, as far as policy is concerned, although managers are allowed a certain amount of latitude in fixing up their windows. A stock inspection crew visits each store at least every 10 days, and has authority to take out and destroy any merchandise not in perfect condition. Between these visits supervisors check all details of operation.

The Fanny Farmer Candy Shops, Inc., were founded in 1919 in Rochester, N. Y., and have expanded to many other cities, with ambitious plans for further expansion. All stores are of small size, making for neatness of appearance, although an endeavor is made to have each unit appear attractive and distinctive. Locations are all selected with reference to density of traffic and type of patronage.

An almost uniformly high standard is observed in all candy chains, due to the keenness of competition. Quality of product, cleanliness and neatness of store and salespeople, and courtesy are all essentials in securing trade. Practically all seek out 100 per cent locations. All are closely supervised. There is little differentiation in price between rival chains.

Page and Shaw, Inc. operate a number of stores abroad, the first one having been established in Piccadilly, London, in 1919, and others having been opened later in London and Italy. The fundamental object of this foreign expansion was to gain added prestige, especially from the tourists who returned to the United States with impressions of Page and Shaw candy stores. The English consumer had to be educated to like American candy, a product of higher quality than the average London product. An American atmosphere was combined with the essentials of English service.

Nedick's, Inc.—In 1914, a company was founded in New York City to “distribute under the most approved hygienic methods,

a pure, wholesome, orange drink which could be retailed to the public at a popular price." During the first 12 months of operation, a dozen stores were opened which did a gross business of \$63,000. In 1927, 125 units were in operation, built up entirely from earnings. In that year, \$1,250,000 of ten-year gold bonds were issued publicly to acquire the capital stock of the original corporation.

Although other drinks have been tried, they have not proved satisfactory, and although sales of orange drink fall off in winter, the company does not care to attempt the sale of hot drinks. Orange drink represents 65 per cent of the total sales, the only other items handled being package goods and frankfurters. So few are the items in the stock that, even in the busiest times of year, no more than \$40,000 is tied up in inventory.

Stores are usually open to the street, being display and store in one. A uniform finish in white makes them easy to find. The fact that they are on the street, that there is no door to open, no steps to ascend or descend, has a strong appeal to the public.

Bakery Chains.—The bakery chain is in many respects like the candy chain. It depends on location mainly for obtaining customers and, the product being perishable, the problem of leftover goods becomes extremely important. Although there are many small bakery chains, the Federal Bake Shops, Inc., of Davenport, is by far the largest chain in the field. This company was first started in 1919, and at that time licensed patented baking equipment for use in window-front bake shops, and received in return a royalty of 3 per cent of the gross sales in each shop. This did not prove satisfactory and, in 1920, the licensing organization was converted into a regular chain. The company had considerable difficulty in getting on a profitable basis, but by 1924 unproductive units had been cut off, and sales per store brought up to satisfactory figures.

The company believes much of its recent success has been due to changing the physical characteristics of the stores. The new-type front emphasized the cleanliness and daintiness of the product. Out of 97 units operating in 1927, 85 were in 22 states in the East, South, and Middle West. The company specializes in cakes and pastries; only 5 per cent of sales being bread.

Each store is a separate manufacturing unit. Advantages over independent retailers lie chiefly in purchase of raw materials in bulk, expert direction and supervision, reduction of waste, and development of scientific recipes at headquarters which must be followed rigidly.

Stores are all located in 100 per cent districts, although not always in 100 per cent locations. Managers are trained to watch all conditions that may affect sales, such as the weather, and special sales in department stores. A sudden change in the weather may leave a large part of the day's bake unsold. A straight wage is paid, plus a premium based on savings in controllable expenses.

The bakery field is a difficult one, since the bakery has to contend with branded baked goods sold through independent grocers and also the baked goods of the chain groceries. The success of the Federal chain shows that it is possible to surmount all difficulties by careful management.

Restaurants.—In the restaurant field, the service problem is accentuated. The restaurant is the dividing line between the two types of chains. The restaurant field itself is sharply divided into the service and the self-service type. At present, the bulk of the restaurant chains are of the latter type, approximating more nearly the original chain idea of a series of stores selling necessities to a large number of people, the sales being based on low price and convenient location.

In the service restaurants, Childs stands far in the lead. But it is a service chain conducted according to all the rules of chain store practice. It insists on suitable locations, serves standard low-priced food, stresses the display features, etc. This is contrary to the policy pursued by independent restaurants, where a reputation for fine cooking or excellent service will often draw customers out of their ways.

The self-service lunch rooms are always located on traffic avenues. They will be found near railroad stations to catch early and late traffic, and in the business districts to catch business people at noon. The John R. Thompson Company in Chicago and the Waldorf Lunch System, Inc., in Boston, are the largest in the field. There are many local and semi-local chains with from 3 to 20 branches.

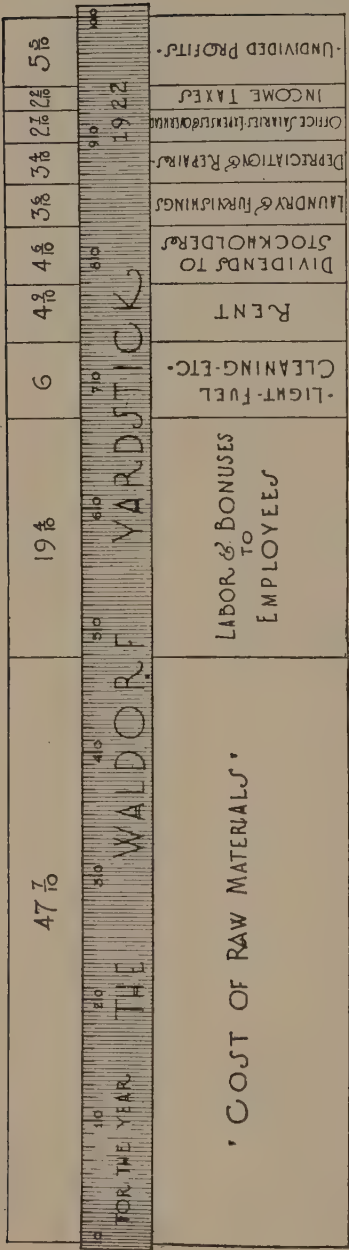


Fig. 132.

The Waldorf System is typical of the self-service restaurant chain. The first Waldorf Lunch was founded as late as 1904, in Springfield, Mass., with an initial investment of only \$1,800. The first Waldorf Lunch in Boston was started in 1906. The chain's great growth dates from 1919, when the Waldorf System, with 38 stores of its own, absorbed the Kinney and Woodward chain having 14 stores, and the Baldwin chain having 7 stores, making a total of 59. In less than two years it added 30 more links, 20 of them from the absorption of the 11 stores of the Porter Capitol System, and 9 from the Waldorf Company of Providence, R. I. In 1924 there were over 112 links.

In 1927 there were 132 units, the policy now being to proceed slowly and conservatively.

The company has applied the policy of standardization to the retailing of food. In each district a master chef and baker, with assistants, cooks and bakes for all the Waldorfs in the vicinity. This central commissary operates 24 hours a day. Although the company makes no more than 2 cents on each meal, yet with 50,000,000 meals served annually, the profits are substantial.

Figure 132 illustrates the average expenditures and profits. Figure 133 shows how the store ledger accounts are kept. Since this classification is the result of much study, it should prove valuable to other chains operating in this line.

The John R. Thompson Company, of Chicago, has done a great deal of personnel work. Worthy employees are advanced, stock is offered for purchase, a profit-sharing system supplements the regular wage. A monthly house organ, called *Thompson's Pure Food Journal*, is published in the interests of the employees.

The B/G Sandwich Shops have had considerable success since they opened a first store in 1921. At first, franchises to operate B/G Sandwich Shops were sold, but later the company built up its own organization, and only a few of the franchise shops still remain. The organization has some special policies. No one with a trace of foreign accent will be employed. There is no tipping allowed. Great care is taken in training employees. At any time a new store is opened, a complete and experienced crew can be sent there. Great care is taken in choosing the right location. It costs about \$25,000 to outfit a new B/G Shop, exclusive of rent. A distinctive orange trim is used, lighted outside with floodlights.

Hotels.—The hotel chain is the largest enterprise which has yet been attempted along chain store principles. For example, the Hotel Pennsylvania, at New York, the largest hotel in the world, is a link in the Statler chain. The Bowman chain operates many hotels in the country. The United Hotels Company of America operates 18 hotels in the United States and Canada. According to the *Hotel Record*, there are about 100 so-called hotel chain systems in the United States, operating as many as three or four hotels under the same management.

Most of the hotel systems have a common accounting and purchasing system. The manager of each hotel, as is natural, exercises great authority in the hiring of help, ordering of supplies, adjustment of complaints, etc. But outside of material comfort, the hotel chain must furnish one indispensable element, which is service. How important service is in the mere selling of commodities has already been emphasized. But much of the hotel sales appeal is based on service, telephone, elevator, mail, waiter, almost everything the guest may desire. And the

excellence of the service counts a great deal. Location, in other words, is not the entire story. A guest will have his favorite hotel, of which he will be a steady patron as long as the service satisfies him. The management, therefore, tries to give uniform service in the entire chain, so that a guest going to another city will patronize the hotel owned by the same chain.

The Statler management will accept no excuse for failure to carry out policies as explained in the Statler Service Codes. Discourtesy is not allowed under any circumstances, even though the guest be unreasonable. For example, the following quotation is taken from the directions to front-office clerks:

Mail clerks and key clerks who recognize people and remember their names are more valuable to us than others who do not.

You know that what the guest wants (and is entitled to) is a helpful and interested, as well as a courteous, service. You are not through with any transaction until the guest is satisfied; or, if you cannot satisfy him, until you have called your superior and the matter is out of your hands.

The Hotels Statler have considered it worth the expense to advertise their policies nationally as a means of acquainting the public with them. It is another case of the chain organization's ability to pick out the fundamental basis of competition and use it as a sales appeal.

Optical Goods.—One would not ordinarily suppose that optical goods offered a profitable field for chain operation, yet there are several successful chains. The M. H. Harris chain, operating in the metropolitan district of New York City, limits its activities to prescribing, making, and fitting eyeglasses. Many other chains sell cameras and similar merchandise as side lines to secure volume. The M. H. Harris Company is purely a service chain. The intent is to surround the chain with a professional atmosphere. Registered physicians of repute are employed to examine customers' eyes.

The chain secures business by its follow-up system, and daily advertising in the newspapers. Eyeglasses are only occasional purchases, and the average life of a pair of eyeglasses is estimated at from 3 to 4 years; that of spectacles from 4 to 6 years. About 10 per cent of gross sales is spent in advertising, usually in newspapers with large circulation. Automatic typewriters are kept

constantly operating to get out the follow-up letters, starting only a few weeks after the first purchase with an inquiry as to whether the patron is satisfied. A card and stamped envelope is enclosed. About 50 per cent of these cards are returned, and about 98 per cent are satisfied. A year later, another letter goes out, calling attention to the desirability of a yearly examination to see whether the condition of the eyes has changed at all. Also, the chain solicits the business of large institutions. The only charge is for the glasses supplied to those who order them. The selling argument is the loss of efficiency resulting from imperfect eyesight of employees.

The greatest advantage of the chain of offices is the opportunity which this provides for advertising.

Automobile Accessories.—In this field there has been little expansion, although there are a number of successful chains, such as the Times Square Auto Supplies Company, of New York, and Taubman's, of Buffalo. This latter chain was founded at Greensburg, Pa. in 1919. As given by the founder, there are four fundamental reasons for the success of his chain:¹

1. Almost exclusively reliance upon price appeal.
2. Main contact with consumer through newspaper advertising.
3. Featuring in newspaper advertising of thousands of small items.
4. Advertising directed almost solely to men.

One of the policies of the chain is to sell standard articles at the lowest price consistent with quality. Sometimes this is done by taking the entire output of a manufacturer; sometimes by doing away with cartons and packages. Average stock turnover is ten to twelve times a year. If stock does not turn, even when price is reduced, it is not reordered.

The company has experimented a great deal with advertising, and newspapers with large circulation have been found best. Prices are changing so constantly, new articles are being stocked so often, and old ones being discarded, that the newspaper is practically the only profitable medium possible. Large space is used, often double-page spreads, especially when opening a new store.

¹ See *Chain Store Age*, December, 1925.

Approximately 5,800 different items are carried in stock. Most of these are illustrated in advertising (see Fig. 134). There are positions on the advertisement which have been found to sell best. If an article does not sell after being moved from the lower left-hand corner to the upper right-hand corner, it is usually given up. Method of store display is modeled on that of the five-and-ten chains—counters with small trays.

Hardware Chains.—Chains in the hardware field have never made much headway. With the exception of the Winchester Stores, which are linked together only by ownership of Winchester stock and the selling of Winchester merchandise on a species of agency plan, chains are small and often more in the nature of branch stores than chains. Many of the chains are doing their main business in agricultural implements and supplies, or in lumber products. The regular hardware store is not a form of retailing which lends itself particularly well to chain operation. Stock turn varies from 4 to 7 months, with an average of 5 months. There are some 60,000 items that are included in the classification of hardware, and while the average hardware store stocks no more than 4,000 of these, yet they are of such a nature that chain operation is difficult. Two localities, fairly close to each other, will often show great variety in the nature of their demands so that a stock suitable for one town would not do for another.

The most that has been done successfully to date is a fairly small chain, which uses what it can of chain methods. The Winchester Stores have approximately 5,000 agencies or "agent stores." While the plan has varied from time to time, there is a contract with one dealer in each community providing that he shall be the only dealer in the community to handle Winchester-Simmons products, although Winchester guns and ammunition are not included in this exclusive arrangement. The retailer is independent of any connection with the Winchester organization beyond the purchase of a small amount of stock. He is allowed to carry products competing with Winchester goods if he so desires. He is given service by the Winchester headquarters in display, store arrangement, and accounting.

Barber Shops.—In this field also there are a few successful chains, somewhat hampered by labor difficulties. The Terminal Barber Shops of New York City have done much pioneer work

"What's the matter with this one?"

THE new Knickerbocker Terminal Shop is a success. We now return to the subject of all Terminal Shops.

Yesterday the Knickerbocker was an event. Today it is a link in the chain. Bigger than any other Terminal Shop in size, it is no more efficient in service. Newer than other Terminal Shops, it is no truer to Terminal ideals. To you it is a shop in a thousand. To us it is one of eleven.

In fact, if we claimed better service for the Knickerbocker, ten other Terminal Shops would object. That is one of the secrets of their efficiency. United by a common purpose, they are stimulated by friendly rivalry. Each shop thinks it is the standard for the other ten. And each barber thinks he is the standard for the shop. Each is loyal to his location and his chair.

As one of them Downtown the other day said to a patron who was lauding the shop in the Knickerbocker:

*"What's the matter
with this one?"*

TERMINAL *Where the Promise is Performed* BARBER SHOPS

THE KNICKERBOCKER

The World's Largest Barber Shop

HOTEL COMMODORE - WALKER ASTORIA Open till 12 p. m.	HOTEL PENNSYLVANIA Open till 11 p. m.
EQUITABLE BUILDING HUDSON TERMINAL 120 Broadway	HUDSON TERMINAL BLDG. 30 Church St.
TEL. & TEL. BUILDING LONGACRE BUILDING 195 Broadway	HUDSON TERMINAL BLDG. 30 Church St.
	1412 Broadway - 412 St. Open till 11 p. m.

*Women's Department Hair Dressing and Allied Services
The Knickerbocker - Waldorf-Astoria - Hotel Pennsylvania*

FIG. 135.—Good example of how to advertise a chain without causing jealousy among individual units. (*Printers' Ink Monthly.*)

along the line of merchandising a service by means of a chain of units. In applying advertising as a method of building up the business, certain fundamentals have been observed, notably the following:¹

First. If a business is not naturally advertisable, it can be made so by adding advertising features. For example, the advertising campaign of the chain is built on the following twelve fundamentals:

1. You enter a barber shop that is as immaculately clean as a clinic room in a hospital.

2. A chair that is actually comfortable. A clean sheet is fastened about your neck with a sterilized band, and completely covers you.

3. A barber who is not an ordinary barber at all, but a thoroughly trained, highly skilled specialist.

4. This barber carefully washes his hands with germicidal soap.

5. See him take an envelope from a cabinet, tear it open and take out a fresh shaving brush. This brush has been sterilized in formaldehyde and made surgically clean since it was used the day before.

6. Then see him pour fresh soap powder directly on to this brush from the original tube. No mugs or sticks or cakes of soap are used.

7. A razor sterilized in boiling water. So keen is his razor and so light and sure his touch that you will not realize you are being shaved.

8. See him take a new, clean hot towel and steam your face.

9. He will give you a little massage with cold cream made especially for the company of pure fats, a veritable skin food.

10. The lotions he will use on your face, witch hazel, lilac, or whatever you prefer, will be full strength, just as bottled by the maker. Nothing in this shop is diluted for the sake of saving money. No imitations used.

11. See him take another sealed envelope from the cabinet, tear it open and take out a fresh brush and comb. Like the shaving brush, this hair brush has been sterilized and made surgically clean since its last use.

12. Despite this unique and costly service the charges are no more than elsewhere.

Second. Advertising enables a business either to give more for the same money or else to sell for less.

Third. Advertising can remove the peaks and valleys of patronage fluctuation even from a strictly service business.

Fourth. Even such a blasé individual as the average journeyman barber can be trained to back up advertising promises.

Fifth. Advertising attracts the best workers in an industry by enabling them to earn more.

¹ JOHN ALLEN MURPHY, writing in *Printers' Ink Monthly*.

Most of the copy appears in newspapers, and is composed largely of descriptions of the service features of the shops. When a new store is opened, this naturally receives the bulk of the emphasis, but ordinarily advertising is formulated so that it benefits all links in the chain equally (see Fig. 135). The copy also frequently emphasizes the location of the shops, especially when they are located in famous hotels, such as the Waldorf-Astoria and the Knickerbocker.

Theatre and Motion-picture Chains.—The conception of a chain organization has spread into widely divergent fields. In the theatre field there are the Shubert and other interests with outlets in several cities; in the vaudeville field there are the Keith, Poli, and other circuits; in the motion-picture field there are Loew's Inc. and many another. The latter type corresponds more closely than the others to a chain organization, although the problems, or, at least, many of them, are far different from those to be encountered in a grocery chain. Yet it has certain chain characteristics:

1. In choosing locations, real estate specialists pick sites where opportunities are greatest.
2. Advertising can be carried on for several theaters at the same cost as for one.
3. Buying power allows the chain to secure the best films when released.

Because of the small admission fee charged by motion-picture houses, the business is not subject to material fluctuations due to business prosperity or depression.

Chain Loan Offices.¹—There are a number of money-lending companies, which make small loans of money, particularly to the working class, repayable usually in 10 to 15 instalments, loans averaging from \$75 to \$150. Conspicuous among these are the Morris Plan Companies, which are numbered in the hundreds. There are also local lending companies operating under supervision of the New York state banking department, and also under state officials in other states. The Beneficial Loan Society has about 60 offices, and controls the American Loan Company with 22 offices. Collateral Bankers, Inc., of

¹ Information supplied by Clarence Hodson, Chairman of the Board, Beneficial Operating Bureau, New York City.

New York, owns about 50 offices. Household Finance Corporation, Chicago, Ill.; Community Finance Service, Inc., Richmond, Va.; A. H. Williams, Chicago; and Commonwealth Loan Company, Indianapolis, also have chains of considerable size. All these companies make industrial or small loans and do not make pawn or automobile loans.

The only chain of pawn loan offices is the Provident Loan Society of New York City.

INDEX

A

A & P News, 228
Accounting, 28
 drug chains, 511
 methods of, 414
 necessity for, 29
 retail grocery store, 433
 supervision of, 443
Accounts, classification of grocery,
 477
Acme Cash Basket Stores, 344
"Acme Special," 281
Acme Tea Company, 25
Adjustments, inventory, 333
Advertising, 6, 7, 29, 38, 198, 202,
 218, 228, 232, 234, 467
 chain, 232
 drug, 509
 cooperative, 234
 department, 203
 direct-mail, 164, 228
 editorial, 216
 effort, 233
 financial, 373
 institutional, 208, 209
 media, 6, 219
 national, 66, 208
 newspaper, 7, 164, 186, 223
 periodical, 220
 personnel, 203
 price, 215
 radio, 231
 technique, 156
Affiliated retail stores, 535
Agencies, advantages of, 291
Alexander Hamilton Institute, 143
Almar Stores Company, 55, 164, 276
American Loan Company, 571

American Stores Company, 25, 113,
 142
American Telephone & Telegraph
 Company, 373
Application blank, 239
Arkins, F. G., 143
Arrowhead Store, 53
Associated Chain Drug Stores, 49
Auditors, traveling, 326
Authority, 316, 331

B

Barber shops, 568
Barton, Fred B., 211, 281
Barton's 5-cent and 10-cent Food
 Stores, 497, 498
Bay Cities Mercantile Company,
 234
Beard, M. L., 119
Beckman, Alfred H., 490
Bedell Company, 553
Bell Company, 25
Belmont Stores Corporation, 553
Beneficial Loan Society, 571
B/G Sandwich Shops, 173, 564
Blackman Company, The, 121
Blakeley, John, 263
Bliss, E. J., 164, 463, 545
Bohack Company, H. C., 102, 196,
 274, 372, 499
Bonus, 10, 264
 plans of remuneration, 297
Boots the Chemists, 507
Boston Stock Exchange, 370
Bower's Stores, Mr., 219
Bowman chain, 564
Branch house, 1
Brands, chains' private, 42, 117, 232

Brewster, Kingman, 365
 Bristley, Frank D., 54
 Brownie Meat Shops, Inc., 500
 Browning, King and Company, 458,
 459, 468, 469, 470, 662
 Bruce, R. A., 461
 Bulletins and letters, 273
 Bushnell, George H., 380
Business, 381
 Business conditions, 150
Business Methods, 322
 Butler Brothers, 140
 Buyer, 115, 120
 psychology of, 32
 Buying, 4, 30, 50, 109, 113, 122
 associations, retail, 31
 channels, 109
 factors, 118

C

Capital, 31
 Carnegie Institute of Technology,
 245
 Cash-and-carry, 20
 policy of, 171
 Cash Food Stores, 294
 Cash receipts, safeguarding, 103
 Cassin, J. W., 511
 Chaffee Company, H. G., 234
 Chain buyer and the manufacturer,
 119
 control by individuals, 321
 organizations, types of, 22
 Chain Shirt Shops, Inc., 457, 548
 Chain store, 262
 and its market, 124
 appearance, 97
 definition of, 1
 development of, 16
 distribution of, 15
 early expansion, 363
 financing, 363
 geographical extent, 17
 grocery, and the manufacturer,
 489
 growth, 2, 19

Chain store, location of, 58
 manager, 310
 manufacturers', 455
 manufacturer's salesman and the,
 121
 preeminence in retail field, 151
 products, 125
 specialists, 325
 types of, 16, 43, 472, 497, 499, 552,
 568
Chain Store Age, 55, 61, 62, 65, 66,
 67, 68, 72, 88, 90, 100, 104, 106,
 107, 119, 160, 164, 166, 181,
 183, 184, 187, 188, 194, 195,
 196, 205, 211, 212, 227, 240,
 253, 254, 279, 294, 302, 332,
 337, 357, 358, 361, 366, 372,
 398, 407, 477, 489, 501
 Chain Store Grocers' Association, 57
 Chains, differentiation between, 23
 legal attempts against, 491
 local, 19
 manufacturers', operations of, 465
 manufacturing by, 44
 national, 17, 135
 Penny, 159
 sectional, 19
 size of, 335
 system, furniture, 347
 types of, 571
 Chamber of Commerce of the United
 States, 144, 145
 Charlton, Earle P., 521
 Charlton & Co., E. P., 25
Chicago Apparel Gazette, 127
 Childs, 25, 76
 Clay Shoe Stores, Henry, 545
 Clerk, chain store, 262
 Clover Farms Stores Company, 396
 Collateral Bankers, Inc., 571
 Collins, Herbert S., 556
 Columbia Outfitting Company, 278,
 279
 Combination, 25
 Commonwealth Loan Company, 572
 Commissions, 10
 on basis of profits, 296

Commissions on sales, 293
 Competition, 170
 analysis of, 40
 bases of, 27, 35, 40
 chain store, 1, 38, 42, 54, 138, 198
 changes in bases of, 28
 independent, 48
 price, 200
 Competitors, 26, 36, 73
 independent, 178, 262
 Concessions, 391, 398
 Consumer demand, 232
 Contests, 6, 281
 Control, 13
 Cooperation, among independents,
 30
 Cooperative merchandising cam-
 paigns, 167
 Cost of doing business, 377
 Courtesy, 172
 Credit memos, 435
 Credits, of clothing chain, 540
 policy of, 172
 Criscuolo, Luigi, 366
 Cunningham Drug Stores, 185
 Customers, methods of keeping
 track of, 168
 treatment of, 261
 Caley's, Incorporated, 150, 234

D

Dawson, C. M., 181
 Day, Inc., Joseph P., 63
 Daneny, H. D., 189
 Davis, Charles S., 160
 Decker & Bros., Chas. M., 20
 Deliveries, 12
 Delivery, 171
 system, 36, 356, 357
 Demand, 127
 Dennison Stores, The, 457, 458
 Department, educational, 262
 leased, the, 297
 of Labor, 291
 real estate, 80
 store, 41, 60
 chain, 534

Discipline, 285
 Display, 6, 7, 32, 73, 525
 cards, 196
 coordination of, 190
 with advertising, 192
 floor, 192
 general, 189
 importance of, 180
 management of, 180
 shelf, 197
 store, 179
 window, 38, 179, 187, 256, 516
 Displays, changing, 189
 checking, 184
 counter, 193
 planning, 183
 testing, 181
 Distribution, 11, 41, 43
 direct, 15, 167 (see *Cooperative
 Merchandising Campaigns*).
 Distributor, 43
 wholesale, 41
 District Manager, qualities for, 327
 rating, 332
 Dixie Shoe Stores, 545
 Dotson-Kerwin Stores, The, 127
 Douglas Shoe Company, W. L., 220,
 460, 545
 Dow Drug Company, 49, 176, 258,
 511

Dromedary Food Products, 121
Drug Store Merchandising, 258, 262
 Druggists' circular, 505
Dry Goods Economist, 21, 122, 299
 Dunlap & Company, 25

E

Economical Drug Company, 22
 Efficiency rating card, 264
 Employees, bonding, 406
 dishonesty of, 104
 selection of, 237
 sources of, 238
 training of, 252
 transferring, 306
 Employment, department, 238
 of women, 250

- Endicott-Johnson Chain, 165
 Equipment, 95
 Executive control, centralization of, 444
 daily report, 446
 functions, 324
 Executives, 288
 chain store, 321
 Expansion, planning for, 77
 Expense, 2, 12
 distribution of, 11
 eliminated, 383
 statement of, detailed, 451
 Expenses, and profits, 377
 detailed, 378
 keeping down, 380
 Experience, 249
- F**
- Fanny Farmer Candy Shops, Inc., 558, 559
 Faxon's Thrift Grocery Stores, 154, 156
 Federal Bake Shops, Inc., 560
 Federal Reserve Bank of New York, 132
 Federal System of Bakeries of America, Inc., 133, 167, 386
 Feltman-Curme Shoe Stores Company, The, 545
 Filene, E. A., 43, 391, 535
 Filene's Sons Company, William, 535
 Financial responsibilities, 318
 Financing, 12
 methods of, 364
 short term, 370
 the chain, 363, 370
 the smaller chain, 371
 through an investment house, 366
 First National Stores, 19, 150, 364, 369, 487, 488
 Five-and-ten-cent store, 265
 field, 140
 Fleek, John S., 428
 Flickinger Company, Inc., The A. M., 327, 395
- Fluctuations, daily, 133
 seasonal, 130
 Fly, Joseph M., 46, 209, 219
 Fogler, R. H., 302
 Foltz Grocery and Bakery Company, 59, 88, 95, 227
Forbes Magazine, 245, 247
 Forsythe Company, 248
 Frank and Seder, 535
 Functions of inspectors, 263
- G**
- Gensler-Lee Jewelry Company, The, 362
 Ginter Company, The, 229
 Good Stores of Cleveland, Tom, 356
 Goods, branded, 36, 117, 337
 convenience, 3
 packaged, 128
 Goodwill, 6, 37, 169, 171 (see *Delivery*).
 Gotham Hosiery Company, 457, 458, 460
 Graham, Lloyd S., 67
 Granger and Company, 51, 52
 Grant Company, W. T., 240, 244, 245, 302, 526
Great Atlantic and Pacific News, 228
Great Atlantic and Pacific Tea Company, 16, 17, 19, 24, 30, 42, 77, 133, 203, 208, 223, 231, 233, 282, 326, 473, 477, 492, 493, 499
 Great Western Tea Company, 493
 Green Brothers, Inc., 520
- H**
- Haberdasher*, 550
 Hamburgers, 535
 Hanan Shoe Co., 16
 Handy Andy Community Stores, Inc., 382
 Happiness Candy Stores, 26, 558
 Hardware Chains, 568
 Harris, M. H., Chain, 565
 Hartford, George H., 16, 42, 326, 492
 Hartman Corporation, The, 347, 353, 354

- Harvard Business Review*, 111
 Heinz Company, 47
 Hegeman and Riker Companies, 505
 Henry Clay Shoe Stores, 545
 Hill Brothers Company, The, 121, 489
 Hill Company, H. G., 162, 163
 Hodson, Clarence, 571
Hotel Record, 564
 House organs, 9
 House Private Corporations Committee, The, 491
 Household Finance Corporation, 572
 Huff, Harold J., 185
 Hutchinson Company, W. K., 503
 Huyler's, 558
- I
- Ideas, selling, 263
 Independent stores, 36, 38, 42
 Inspectors, 262, 263
 Insurance, 38, 405
 against fire, 400
 broker, 399
 plate glass, 403
 policies, fire, 403
 public and employers' liability, 404
 real estate, 401
 self insurance, 406
 Inventory, 338, 418
 adjustments, 333
 certificate of, 350
 control, 513
 physical, 353, 452
 Invoice, 424, 425
- J
- Jobbers, 24
 Jones Brothers Tea Company, 477
- K
- Kagan, Jacob, 549
 Kaufman, B. H., 552
 Keller, D. C., 49
 Kellogg's Corn Flakes, 110
- Kent, Chester, 506
 Kenton Hats, 552
 Kinney Company, G. R., 545
 Kirby & Company, F. M., 25
 Knox and Company, S. H., 25
 Knox, S. H., 521
 Kresge, S. S., 535
 Kresge Company, S. S., 21, 71, 89, 141, 151, 223, 364, 367, 368, 370, 373, 374, 524, 531
 personal efficiency chart, 266
 Kress, 364, 367
 Kroger, B. H., 33
 Kroger Grocery & Baking Company, 12, 19, 98, 111, 113, 125, 364, 493, 494
 Kuhn's Five-ten-twenty-five-cent Stores, 250
- L
- Labor problem, 519
 Larkin Company, 250
 LaSalle and Koch Store, 535
 Layout, standardized, 93
 Lee Candy Shops, Inc., Mary, 558
 Letters, 273
 Levy, J. B., 93
 Lewandos, 553
 Library Bureau, 457, 459
 Lighting, 187
 Liggett, L. K., 506, 507
 Liggett Company, Louis K., 19, 44, 45, 70, 102, 148, 173, 180, 187, 195, 196, 257, 279, 350, 505, 506, 507, 510
 one-cent sales, 389
 policy of, 190
 Lincoln Candies, Inc., The Mary, 393
 Lines, number of, 127
 Loblaw Groceries, 90, 322
 Location, 78
 city, 61
 factors of, 63
 grocery chain, 475
 quality of, 76

Location, rural, 66
 store, 3, 33
 the warehouse, 338
 Loss leaders, 5
 Lowenstein, B., 535
 Long's Hat Stores, 552
 Loveman, Joseph and Loeb, 535

MAC

MacDiarmid Candy Company, 153,
 250
 MacDonald, K. G., 386

MC

McAn Shoe Store, Thom, 545
 McCrory Stores Corporation, 364,
 367, 370

M

Macy & Company, R. H., 535
 Mail-order house, 41
 Maison Blanche, 535
 Manager, store, 1
 district, 321, 326, 329
 rating, 332
 individual, 311
Management, 496
 and method, 33
 central, 443
 of chain stores, 507
 Managers, retail store, 429
 variety store, 527
 Manager's, personal analysis, 302
 report, 314
 Manufacturer, 41, 42, 120, 531
 Market, chain drug store, 507
 nature of, 60
 range, 134
 study of, 4
Marketing, Its Problems and Methods,
 126
 Marks, Albert S., 55
 Mark-up, 5, 138
 and mark-down, 426
 Marshall, W. G., 59
 May Department Stores, 535

May Drug Company, 253
 Meaker, Ellis R., 372
 Media Drug Company, 513
 Melville Shoe Corporation, 545
 Member Stores, distribution to, 11
 Merchandise, control account, 438
 standardization of, 36
 type of, 170
 Merchandising, policies, 4
 drug store, 258
 Mergenhagen, Botho L., 100, 104
 Merrill, Charles E., 151
 Merrill, Lynch & Company, 151,
 366, 374
 Methods, standardization of, 12
 Metropolitan Five- to Fifty-cent
 Stores, Inc., 96, 233
 Mission Candy Company, 392
 Moore, W. H., 25, 521
 Morale, 9
 elements of, 270
 enforcing and results, 285
 methods of creating, 272
 of an organization, 270
 question of, 286
 Morris Plan Companies, 571
 Mototeria, 503
 Mullen, Wadsworth H., 42, 111
 Murphy, J. A., 45
 Mutual Grocery Company, 315
 Mutual Stores, Inc., 332

N

National Association of Retail Gro-
 cers, 491
 National Biscuit Company, 47, 491
 National Chain Store Grocers' Asso-
 ciation, 46, 107, 142, 149, 209,
 490
 National Department Stores, 376,
 535
 National Retail Dry Goods Associ-
 ation, 397
 National Shirt Shops, Inc., 165, 175,
 295, 336, 549
 National Tea Company, 26, 197, 495

- Nedick Stores, The, 73, 559
 Neighborhood districts, 2
 Neisner Brothers, Inc., 177
 Newark Shoe Stores, 545
 New York Department of Labor,
 249, 264, 528, 529
 New York Waist House, Inc., 553
 Nicholls, Jr., Charles C., 87
 Nystrom, Dr. Paul H., 534
- O
- One-man business, 34
 Operations, standardized, 86
 Operators, independent, 495
 Organization, 459
 five-and-ten-cent store, 271
 plan, 321, 495
 principle of, 299
 types of, 17
 Overhead, 12, 137, 379
 Owl Drug Company, 142, 279, 292,
 296, 297, 355, 505, 518
- P
- Page and Shaw Candy Stores, 559
 Parker, John H., 504
 Parsloe, F. L., 102
 Parson, Hubert T., 55
 Paull, Irving S., 26
 Pay'n Takit Stores Company, 92
 Peck, Carson H., 521
 Pell, W. H. Dannat, 536
 Penney Building and Realty Cor-
 poration, J. C., 536
 Penney Company, J. C., 22, 24, 58,
 60, 65, 68, 69, 77, 78, 89, 90,
 113, 114, 116, 122, 147, 191, 205,
 208, 223, 225, 256, 298, 321, 338,
 364, 365, 368, 370, 376, 536
 Peoples Drug Stores, The, 369
 Personnel, 2, 7, 35, 59, 80, 464
 administration, 270
 department, 237
 judging the, 302
 organization, 8, 28, 34
 qualifications, 8
 Research, Bureau of, 245
- Phillips-Jones Corporation, 548
 Pick, Milward, 544
 Piggly-Wiggly Companies, 20, 21,
 24, 49, 92, 93, 97, 126, 160,
 215, 230, 234, 294, 350, 351, 383,
 494, 495, 502
 Podren, A Fred, 549
 Policies, advertising, 60
 buying, 116
 chain store, 17, 538
 individual, 75
 leasing, 88
 merchandising, 60
 operating, 19, 23
 selling, 36
 Pon Honor, Inc., 161
 Population, 63
 increase in, 2
 type and habits of, 64
 Porter Capitol System, 562
 Posters, 226
 Premiums and trading stamps, 166
 Price, as sales appeal, 153
 changes, 419, 429
 codes, 341
 cutting, 142, 147
 determination of, 5
 policy, 35, 530
 range, 139
 standardized, 141
 tickets, 190
 Pricing, 5, 137, 151
 retail, 139
 theory of, 138
 uniform, 428
Printers' Ink, 45, 52, 200, 569
 Procter & Gamble Company, 47
 Products, chain store, 461
 knowledge of, 257
 number of, 125
 sold by chain stores, 17, 60, 507
 Profits, 12, 39, 137, 147, 385
 miscellaneous, 389
 sharing, 298
 store, 385
 Promotion, 288, 300
 by merit, 302

Promotion of personnel, 9
 training men for, 266
 Public, 42, 55
 needs of, 135
 Publicity, of new store, 164
 Purchase, typical, 423
 Purchasing, 410

Q

Qualifications of personnel, 8
 Quality, 128

R

Ramsay, Robert L., 228
 Read Drug and Chemical Company, 160
 Records, importance of, 13
 sales, 4
 Red and White Stores, 395
 Redfern Corset Company, 458
 Regal Shoe Company, 97, 239, 254, 255, 315, 460, 461, 462, 464, 466, 545, 546
 Reimers, Carl, 200
 Remuneration, 9, 288, 289
 bonus plans of, 297
 Renfro Drug Company, 157
 Rent percentages, 87
 Rental conditions, 65, 524
 Reports, annual, 453
 executive daily, 445, 446, 448
 monthly, 449
 weekly, 448
 Requisitions, blanks, 341
 Resco Size Control Board, 546
 Responsibility, the branch manager and his, 317
 Retail, inspecting, 263
Retail Ledger, 197, 213, 556
 Retail outlets, policing of, 432
 Retail Research Association, 534
 Retailing, decentralization of, 37
 forms of, 41
 Retailer, cooperation among, 50
 independent, 1, 35, 47

Rewards, 284
 Rexall agency, 43, 157, 391, 505
 Riker-Hegeman-Jaynes people, 507
 Riker, William B., 507
 Robinson-Crawford, 25
 Roos Brothers, 168
 Rosenthal Sales Stores, 224
 Royal Baking Powder Company, 54
 Ruzow, S. L., 188

S

Safeway Stores, Inc., 24, 60, 66, 364, 369, 398, 502
 Salaries, paid to executive, 380
 Sales, 452
 clearance and seasonal, 159
 commission on, 293
 fluctuations, 5
 monthly analysis of, 351
 law of the average, 386
 object of, 157
 of new stores, 162
 one-cent, 160
 records, 135
 Sales bulletins and letters, 262
 Salesmen, manufacturers', 121
 Salesmanship, 261
 five-and-ten-cent store, 291
 Sales promotion, 5, 6
 methods of, 152
 Salvage, 422
 Samuels and Company, M., 545
 Sarnoff-Irving Hat Stores, 188, 552
 Scholtz-Mutual Drug Company, 509
 Schrafft Candy Stores, 165
 Schulte Company, 209, 369
 Schulte, D. A., Inc., 87
 Schulte Retail Stores Corp., 26, 70, 321
 Scruggs-Vandervort-Barney, 535
 Sears, Roebuck & Co., 32, 176
 Security issues, 12
 Sam Seelig Stores, 91, 234, 381
 Seidenberg Company, R. J., 181, 273, 351
 Selection of personnel, 8

- Selling, policy of, 36
 - factor in, 270
- "*Selling to and through the Chain Stores*," 121
- Service, 37, 169, 262
 - costs of, 178
 - factors determining, 169
- Service Store Grocers' Association of Chicago, 50
- Sharkey, W. F., 477
- Shattuck, Frank G., 558
- Sheffield Farms Company, 154, 356
- Sherwin Williams Company, 460
- Shinner, E. G., and Company, Inc., 501
- Shoe chains, 208, 547
- Shopping district, neighborhood, 65
 - lines, 3
- Shortages, 107
- Silent Watchman Corporation, 101
- Singer Sewing Machine Company, 459, 466
- Site, choosing of, 67
 - store, 59
- Skaggs, M. B., 209, 210
- Skaggs Safeway Stores, 499
- Smith, Arthur H., 497
- Snyder, Joseph T., Retail Cigar Stores, Inc., 557
- Snyder's, Inc., 552
- Sources, purchasing, 111
- Southern Grocery Stores, Inc., 499
- Spaulding, A. G., 460
- Specialization of the chain, 37
- Special sales, 6, 157, 161, 166
 - preparation, 159
 - season for, 161
 - type of, 159
- Specials, featured, 154
 - preparation for, 156
- Squibb and Sons, E. R., 142
- Standardization of stores, 38, 80
 - grocery chain, 476
- Statements, comparative, 452
- Statler Service Codes, 565
 - hotels, 565
- Stewart, Albert I., 381
- Stewart, A. T., 144
- Stock, arrangement of, 80, 98, 261
 - availability of, 11
 - budget, 334, 335
 - control of, 11, 39, 334
 - system, 342, 348, 351
 - counting, 413
 - in warehouse, arrangement of, 340
 - inspection, 355
 - inventory, 13, 496
 - keeping and records, 411
 - knowledge of, 312
 - maintenance of, 11
 - record card, 343
 - sheets, 4
 - system, dual control plan, 348
 - standardization of, 30
- Stocking goods, 5
- Store, 100
 - five-and-ten-cent, 262
 - front, 3, 92
 - location, 170
 - model, 255
 - manager, 149, 264
 - and his stock, 312
 - and the community, 319
 - importance of, 22
 - morale of, 271
 - remuneration of, 292
 - training, 10, 288
 - manual, 263
 - member, 2
 - retail, 457
 - size of, 90, 91
- Street, 74
- Substitution, 45
- Summerfield, S. E., 457
- Sun-Maid Raisin Company, 167
- Supervisors, 326
- System*, 266, 461, 463

System, audit, 334

First National Warehouse, 487
inspection, 330
service, 105

T

Taft, W. N., 197

Teamwork, 286

Terms, purchasing, 113

Theatre and motion-picture chains,
571

Thing's Shoe Stores, 277

Thompson Company, John R., 564

Thompson's Pure Food Journal,
564

Time, safeguarding of, 101

Times Square Radio and Auto Sup-
ply Company, Inc., 177, 350,
566

Tobacco chains, retail, 555

Tom Good Stores of Cleveland,
356

Traffic, analyzing the, 69

Training, by correspondence, 256

in arrangement, 260

of personnel, 8, 34

of sales force, 265

sponsor system of, 266

the sales girl, 264

Transportation conditions, 64

Trends, chain store, 24

grocery chain, 474

True Company Magazine, The,
280

Truly Warner, 552

Turnover, 4, 5, 125, 137, 143, 151,
337, 452

analysis of, 144

and business conditions, 150

increasing, 146

rate of, 147, 334

securing, 149

stabilizing, 529

where especially necessary, 148

U

Unit store, size, 519

United Agency, 395

United Cigar Stores Company, 3, 6,
12, 17, 26, 35, 44, 60, 61, 69, 70,
75, 76, 77, 90, 92, 97, 102, 126,
132, 141, 147, 149, 160, 166,
167, 172, 196, 239, 240, 263,
284, 293, 505, 554, 557

United Drug Company, 43, 505,
507

United Hotels Company, 564

United Shirt Shops, 93, 549

Units, location, 335

V

Van Ness, Schuyler, 458

Voucher, mark-up, 420, 426

Vogplex, 279

Von's, Inc., 157, 162, 234

W

Wage rates, 290

Waldorf System, Inc., 213, 283, 323,
324, 364, 369, 370, 375, 561, 562

Ward, Shoe Store, John, 545

Walgreen Company, 26, 262, 505

Walker, F. W., 253

Wall Street, 376

Warehouse, 334

arrangement of stock in, 340

size of, 339

stock control, 342

system, 337

Warehousing, 11, 39, 410

Warner Brothers Company, 460

Washington Shirt Company, 282

Waterman Fountain Pen Company,
457

Whelan, George J., 3, 75, 90, 261,
284, 321, 325, 555

White Company, S. L., 536

White, Glen G., 65

- Whitman, R. L., 205
Wholesaler, 46
Wieboldt and Company, 213, 214
Williams, A. H., 572
Williams, Carl O., 344
Winchester Stores Company, 44,
 143, 261
Window, appearance of, 189
Window Display Handbook, 197
Witte, Ernest F., 501
Wohl Shoe Company, 397
Women's Wear, 191
Wood, E. J., 279
Woodworth, R. S., 270
Woolworth, C. S., 25, 521
Woolworth, Frank W., 153, 248,
 365, 519, 520
Woolworth Company, F. W., 17, 18,
 19, 25, 33, 44, 55, 56, 64, 76, 95,
 112, 119, 129, 130, 131, 132,
 133, 151, 208, 222, 223, 298,
 301, 321, 364, 367, 521, 528,
 530, 531
Wormser Hat Stores, 552
Wright, H. S., 66
Wright and Parker Company, 504
- Y
- Yawman and Erbe, 457
Yoakum, C. S., 245
Young's Hat Stores, 552
- Z
- Zahn, Bert, 197

